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## Bulletin, 1928-29

American Institute of Accountants

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# BULLETIN

OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS  
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## Acknowledgment

TO THE MEMBERS AND ASSOCIATES OF THE  
INSTITUTE:

*The president, finding it too great a task to reply in kind to all of the many holiday greetings received, takes this means of returning grateful acknowledgment for this thoughtful remembrance and extends his best wishes to each and every member and associate for a happy and prosperous new year.*

JOHN R. RUCKSTELL

December 27, 1927.

## Institute Examinations

The fall examinations of the American Institute of Accountants were held November 17 and 18, 1927. The results were reported on December 16th to the boards of accountancy which cooperated with the Institute. About 63 per cent. of the candidates failed, 17 per cent. were conditioned in one subject and 20 per cent. passed.

## American Mining Congress

Henry B. Fernald and Theodore H. Sterling represented the American Institute of Accountants at the annual convention of the American Mining Congress, Washington, D. C., December 1st to 3rd.

## Requirements for New York Certificate Amended

Attention is directed to the recent revision of the rules governing the issuance of the certificate of certified public accountant in the state of New York as indicated in the edition of handbook No. 14,

published under date of June, 1927, by the University of the State of New York.

In the section prescribing the conditions under which the certificate may be issued to certified public accountants of other states whose examinations are of a standard equal to those of New York, the following sentence has been added:

"No certification by indorsement will receive favorable consideration in the event that the applicant was, within three years, an unsuccessful candidate for a certificate as a certified public accountant by examination in the state of New York."

In the statement of the several ways in which the preliminary requirement may be fulfilled, the following additional paragraph has been included:

"Satisfactory evidence of at least ten years' experience in the practice of public accountancy may be accepted in place of the academic requirement in all cases filed prior to November, 1929, examination."

The section describing the professional requirement has been rewritten. It now reads as follows:

"*Professional requirement.* Evidence of five years' experience in accountancy at least two of which must have been in the office of a certified public accountant and of no less grade than that of junior accountant; such two years' accounting experience must have been in the office of a certified public accountant in this state or in the office of a certified public accountant residing in another state holding a certificate from such state granted on no lower requirement than that exacted in this state; evidence of three years' experience must be presented prior to a candidate's admission to the examination. Experience gained as a member of a copartnership if under the direction of another member of the copartnership who is a New York state C. P. A. may be accepted toward meeting the C. P. A. requirement for a certificate but such experience must be

certified to by the C. P. A. member of the copartnership and a certified copy of the signed formal agreement of copartnership must accompany the application for a certificate. Two and one half years' experience in the United States military service during the world war may be accepted as equivalent to six months' experience in the office of a certified public accountant.

Graduation from a college or school of accountancy and business administration that is a department of a university or college and that is registered by the department for this purpose may be given credit for two years of general experience in accountancy. General practice of public accountancy on his own account for a period of ten years may be accepted by the department as meeting the experience requirement for a C. P. A. certificate on examination provided the applicant furnishes satisfactory evidence to the department that such experience was diversified in character and further provided that his completed application is filed in the state department on or before January 1, 1930."

The revised rules also give in detail the facts in the record of each applicant which should be presented in applications for admission to examinations.

### **Joint Conference of Maryland Accountants**

A conference of accountants of Maryland was held December 6th at the Southern hotel, Baltimore. The meeting was arranged by the Maryland Association of Certified Public Accountants, the Baltimore chapter of the National Association of Cost Accountants and the Maryland Association of Public Accountants. The conference was attended by about 150 persons representing all the accounting organizations in the state.

J. Wallace Bryan, president of the Maryland Association of Certified Public Accountants, acted as toastmaster. John Milliken, member of the United States board of tax appeals, spoke on "Accountants and the board of tax appeals." C. R. Stevenson, president of the National Association of Cost Accountants, delivered an address on "Standard costs." James Carey, a member of the state board of examiners of public accountants, spoke on "The allied professions."

### **Accountants' Dinner Club of Dallas**

A banquet attended by sixty public accountants of Dallas, Texas, was held at the Hilton hotel, December 20th, for the purpose of organizing an accountants' dinner club in the city. T. F. Kennedy, vice-president of the Texas Society of Certified

Public Accountants, presided at the meeting. It was decided that the next meeting of the club, whose purpose is to promote social and professional intercourse among certified public accountants, should be held January 19th. A committee was appointed to prepare the programme. A committee was also appointed to draft a plan of permanent organization which is to be submitted at the next meeting.

Walter L. McBride delivered an address on federal tax administration.

### **Ratios for Printing Management**

The department of research of the United Typothetae of America, Chicago, has published a pamphlet on financial, operating and cost ratios in the printing industry for the year 1926, with explanation of the methods of using them as measures of management. The statistical material in the study has been compiled from the reports of members of the organization. The pamphlet contains 32 pages, and the subject matter is in five principal divisions: (1) ratios and their relationship; (2) practical applications of ratios; (3) ratio tables; (4) analysis of department costs, and (5) an appendix containing the Typothetae classification of accounts.

### **Annual Meeting of American Association of University Instructors in Accounting**

The annual meeting of the American Association of University Instructors in Accounting was held December 28th and 29th at the Raleigh hotel, Washington, D. C.

J. Hugh Jackson, of Stanford University, was elected president of the association, and R. A. Stevenson, of the University of Minnesota, was elected a vice-president. The following officers were re-elected: Vice-presidents, David Himmelblau, Northwestern University, and A. H. Rosenkamppf, New York University; secretary-treasurer, Howard C. Greer, Ohio State University.

The complete programme for the meeting was published in the *Bulletin* for December 15, 1927. The morning session of the second day was held in conjunction with the American Association of Collegiate Schools of Business.

Some of the general subjects of discussion were classification of accounting

services, the income-tax law, the place of accounting in the commerce curriculum and accounting education. There were twenty-one speakers on the programme.

As a result of discussion on classification of accountancy services, the following resolution was adopted:

RESOLVED, That it would be helpful to this association in planning the education of students who are preparing for the accountancy profession, if a body representing that profession would make a statement classifying, defining and differentiating the various classes of services rendered by the profession; and

BE IT FURTHER RESOLVED, That the committees on coöperation with the American Institute of Accountants and the American Society of Certified Public Accountants be instructed to present this resolution to the national organizations and to endeavor to secure action towards such an end from those organizations.

### **University Encourages Farm Accounts**

It has been announced that the department of agriculture of the University of Minnesota has made plans to encourage the development of accounts for farmers of the state under the supervision of the University.

### **Texas Association of University Instructors in Accountancy**

According to *The Texas Accountant* an organization to be known as the Texas Association of University Instructors in Accountancy had its inception at the November, 1927, meeting of the Texas Society of Certified Public Accountants. Representatives of universities and colleges in the states which offer courses in accountancy were guests of the Texas Society at the annual meeting, and advantage was taken of the opportunity for organization. The following officers of the association were elected: President, Chester F. Lay, University of Texas; vice-president, J. W. Ballard, Texas Christian University, and secretary-treasurer, L. H. Fleck, Southern Methodist University. The new association will meet on days preceding the regular meetings of the state society and will continue its sessions in conjunction with the society.

### **Increase in Students of Accounting at University**

The number of students who have chosen accounting as a major subject at the Uni-

versity of Minnesota this year has increased thirty per cent. over last year's registration, according to *The Accounting Review*. The increase has been explained in part by the success of a plan initiated last year whereby a group of seniors majoring in accounting spent the winter quarter as junior accountants in public accountants' offices, returning to the school in the spring. Twenty seniors have accepted positions under the plan this winter. The number of students available was smaller than the number of positions which could have been obtained for them.

### **Report of Accountants' Committee of American Arbitration Association**

Under date of December 1st the accountants' committee of the American Arbitration Association rendered its report for the year 1926-1927. The committee has existed only one year and from time to time its activities have been reported in this *Bulletin*. According to the report, the main purpose of the committee has been to develop a national rather than a local interest in arbitration on the part of accountants. Professional organizations, educational institutions and boards of examiners in accountancy are the agencies through which the committee has attempted to foster such a nation-wide interest. The committee was organized under the direction of the chairman, J. Pryse Goodwin, in a way which it was believed would prove most effective in taking advantage of all possible means to stimulate in the accountancy profession appreciation of the possibilities of commercial arbitration. The committee on arbitration originally included twenty-five members representing various accountancy organizations and subsequently its personnel was enlarged by additional representatives.

In sketching the achievements of the committee for the year the report refers for details to six calendars of activities issued by the chairman to cover the period from October 31, 1926, to June 30, 1927. The committee has been directly responsible for development of a good deal of interest in arbitration among accountants. It has arranged meetings of accountants devoted wholly to arbitration and at other meetings has provided speakers on the subject. It has disseminated information on the sub-



ject among accountants whenever possible and it has enlisted members in the American Arbitration Association. A subcommittee of the accountants' committee obtained recognition of arbitration in educational institutions interested in accountancy and it is believed that as a result of this subcommittee's efforts commercial arbitration will be included as a part of the curriculum in schools of this kind.

A considerable amount of publicity was obtained by the committee. During the year 133 accountants became members of the American Arbitration Association and it is believed that this number is due largely to the efforts of the accountants' committee. The report says that there are in the Arbitration Association today more members representative of accountancy than of any other profession.

It is said that as a result of careful study of the subject the members of the accountants' committee have reached the following conclusions: (a) that in the settlement of commercial disputes arbitration offers a method for the saving of time, money, publicity, credit and friendship; (b) that arbitration is a function of the

accountancy profession; (c) that, as such, its development is now where income tax was in 1913, and that in a decade hence arbitration may be as important a constructive service of the profession as is income-tax practice today; (d) that each public accountant owes it to his clients and to his profession to familiarize himself with the subject of arbitration and to support the organization responsible for its development.

### **Hotel Accountants Association**

The Hotel Accountants Association has elected officers for the year 1928 as follows: President, Thomas E. Ross; first vice-president, H. M. Phelps; second vice-president, W. E. Dodd; secretary, Wm. J. Jaffee, and treasurer, A. A. Hoffmann.

The directors of the association are the officers, ex-officio, Richard H. Browne, William D. Cranstoun, E. G. O'Brien and R. Schickler.

Committees have been appointed on the following subjects: accounting simplification, admissions, auditing, depreciation, entertainment, legislation, programme, publication and library, statistics and technique.

## **NEWS OF LOCAL SOCIETIES**

### **California State Society of Certified Public Accountants**

At a meeting of the California State Society of Certified Public Accountants, November 17th, a report was made on the John F. Forbes medal fund, which was founded July 7, 1927. The fund was established by voluntary contributions by members of the California State Society as an expression of esteem and respect for Mr. Forbes. The income from the fund will provide each year a gold medal to be known as the John F. Forbes medal, which will be awarded annually to the candidate receiving the highest grade in the C. P. A. examinations of the state.

In a pamphlet describing the fund it is said that Mr. Forbes is largely responsible for raising the standards of accountancy in California by his activities as a member of the state board of accountancy, of which he has served as president from 1914 to the present time. An outline is given of Mr. Forbes' activities in the California State

Society of Certified Public Accountants and in the American Institute of Accountants. In both organizations he has held important offices and has served on many committees. His work in accountancy education is also commended.

At the conclusion of the report on the medal fund, Howard C. Ellis of the state corporation department delivered an address on the reports and financial statements required by the department. He showed how California's certified public accountants could serve their clients best in practice before the department.

### **Florida Institute of Accountants**

It has been announced that a quarterly meeting of the Florida Institute of Accountants will be held at St. Petersburg March 23 and 24, 1928.

### **Fresno Association of Certified Public Accountants**

The Fresno Association of Certified Public Accountants was organized at a meeting

on November 17, 1927, at Fresno, California. C. Edwin Oyster was elected president and George W. Sims, secretary-treasurer. C. E. Bradford and F. H. Kuentz are members of the executive committee, which also includes the officers.

The objects of the organization have been announced as follows:

"To foster a better understanding between the practising certified public accountants and the non-practising certified public accountants of the San Joaquin Valley; to take advantage of every ethical means of educating our business public concerning the meaning of the designation certified public accountant; to encourage all qualified non-certified practising accountants to obtain their degrees and to support all plans having as their object the advancement of the accountancy profession."

### **Massachusetts Society of Certified Public Accountants**

At a meeting of the Massachusetts Society of Certified Public Accountants at the Chamber of Commerce building, Boston, December 28th, Frank M. Carhart delivered an address on "Methods of making patent appraisals from the standpoint of the engineer." Percy L. Bryning also addressed the meeting.

It was resolved that the monthly meeting of the society be omitted in January.

### **Minnesota Association of Public Accountants**

A meeting of the Minnesota Association of Public Accountants was held December 16th at the Radisson hotel, Minneapolis. The following officers were elected: President, Walter Nold; vice-president, Neil McLaughlin; secretary-treasurer, Harold E. Sandahl; executive committeeman, R. W. Pike, and executive officer A. C. Christenson.

Edward E. Gore was the principal speaker and his address was on the importance of coöperation within accountancy organizations.

### **Society of Certified Public Accountants of the State of New Jersey**

The Society of Certified Public Accountants of the State of New Jersey held a regular meeting on December 22nd at which about sixty members and guests were present. The subject for discussion was "Proposed federal tax legislation." The discussion was led by Henry B. Fernald.

Three resolutions were adopted and it was resolved that copies of them be sent to the senators and representatives of New Jersey. The resolutions are as follows:

RESOLVED, that the principle of taxing the true net income of a consolidated enterprise through consolidated returns should be continued in effect.

RESOLVED, that it is the belief of this society that it is not a sound governmental policy to attempt to revive liabilities as to which the statute of limitations has expired.

RESOLVED, that it is not in accordance with public policy for a legislative body to attempt to overrule a supreme court decision by retroactive legislative action.

### **New York State Society of Certified Public Accountants**

A meeting of the New York State Society of Certified Public Accountants was held at the Yale club, New York, December 12th. After an informal dinner C. A. H. Narlian delivered an address on finance companies' accounts. J. P. Friedman spoke on instalment accounts. Both addresses were followed by discussion.

Another meeting of the society was held January 9th at the Waldorf-Astoria hotel, New York. One hundred and forty-six persons were present. Cornelius W. Wickersham and John R. Wildman spoke on no-par-value stock. General discussion followed the addresses.

### **BUFFALO CHAPTER**

At the annual meeting of the Buffalo chapter of the New York State Society of Certified Public Accountants the following officers were elected for the year 1928: President, Edward C. Gruen; vice-president, Edward G. Lucker; secretary, Edwin E. Leffler, and treasurer, Luther K. Watkins.

### **Ohio Society of Certified Public Accountants**

#### **CLEVELAND CHAPTER**

A meeting of the Cleveland chapter of the Ohio Society of Certified Public Accountants was held December 15th at the Cleveland Athletic club in honor of Ernest H. Van Fossan, a member of the United States board of tax appeals. Walter H. Coy acted as toastmaster. Mr. Van Fossan was the only speaker. His audience consisted of seventy-two persons, most of whom were accountants or lawyers.

### **Oklahoma Society of Certified Public Accountants**

The annual meeting of the Oklahoma Society of Certified Public Accountants was held November 7, 1927. The following officers were elected: President, Tom F. Carey; treasurer, W. J. Law; secretary, Charles A. Wright; trustees: R. E. Garnett, Burney Clack and C. F. Miller; auditors: J. G. Beavers and C. D. Tribbey.

### **Pennsylvania Institute of Certified Public Accountants**

The Philadelphia chapter of the Pennsylvania Institute of Certified Public Accountants met at the Bellevue-Stratford hotel, Philadelphia, on November 18, 1927. The meeting was held in conjunction with the Philadelphia chapter of the National Association of Cost Accountants. The subject for discussion was Pennsylvania state taxation. Franklin S. Edmonds, chairman of the Pennsylvania state tax commission, described the basis of the system of taxation in the state. J. Lord Rigby, deputy auditor general of the state, gave a synopsis of recent tax legislation affecting corporations. He emphasized the points that should be considered by accountants in the preparation of reports forming the basis for assessment of capital-stock taxes, corporate-loan taxes and the payment of bonus, for both domestic and foreign corporations.

Another meeting of the chapter was held December 21st at the Art club. Members of the Pennsylvania state board for the examination of certified public accountants were guests at the meeting. After a brief business session, a Christmas entertainment was presented. The principal speaker of the evening was the Rev. Milton Howard Nichols, who spoke on "My business."

### **Tennessee Institute of Accountants**

At a meeting of the Tennessee Institute of Accountants on December 2nd the following officers were elected for the en-

suing year: President, Taylor E. Cress; vice-president, Edward S. Elliott; secretary-treasurer, James A. Matthews; directors: Robert Wilson, J. A. Grannis, B. C. Buffon and E. C. Reynolds.

Attention was devoted to the programme of the institute for the coming year. It was unanimously decided that frequent meetings, more or less of a social nature, should be held in the future.

It was also decided that literature prepared by the institute on subjects explanatory of accountancy and the functions of accountants should be distributed to bankers and business executives. The president was empowered to appoint a committee to undertake a publicity campaign.

### **Texas Society of Certified Public Accountants**

The Texas Society of Certified Public Accountants has published the first number of the first volume of a bulletin called *The Texas Accountant*, the official publication of the society. The first issue is dated January, 1928. It contains four pages, the first of which is devoted to a statement by B. S. Mothershead, president of the Texas Society, of the purposes of the publication. The contents consist of a report of the annual meeting of the society, a report of the committee on education, presented at the annual meeting, and news items.

### **Utah Association of Certified Accountants**

At a meeting of the Utah Association of Certified Accountants at the Newhouse hotel, Salt Lake City, December 16th, the following officers were elected for the year 1928: President, Newland K. Vincent; vice-president, Walter E. Nissen; secretary-treasurer, George T. Patrick.

Lincoln G. Kelly delivered an address on "Professional ethics in relation to the accountant." J. P. Goddard spoke on "The history of accounting in Utah."

Acker & Bacas announce the admission of John J. McGirl to partnership in the firm and a change in the firm name to Acker, Bacas & McGirl. The firm's offices in New York have been moved to 342 Madison avenue.

Walter K. Mitchell, H. A. Kellogg and Fred D. Bullock announce the formation of the firm of Bullock, Kellogg & Mitchell with offices in the Roosevelt building, Los Angeles; the Russ building, San Francisco, and the Tapscott building, Oakland.

## STATE BOARDS OF ACCOUNTANCY

### Colorado

Governor Adams of Colorado has appointed George W. Maynard a member of the state board of accountancy. Mr. Maynard's term will expire October 20, 1930.

### Connecticut

Governor Trumbull of Connecticut has reappointed Charles F. Coates a member of the state board of accountancy. Mr. Coates' term will expire in January, 1931.

### Georgia

Ten candidates at the last C. P. A. examinations conducted by the Georgia state board of accountancy have been granted certificates as certified public accountants. Certificates have been issued to the following: Everett L. Amis, Howard J. Bivins, Wilbur A. Callahan, R. F. Gray, Joel Hunter, Jr., Philip Jeffries, Jr., George Pennington, Jr., Julian A. Pope, Joseph H. Porter and Travis C. Rowland.

### Minnesota

The Minnesota state board of accountancy has issued C. P. A. certificates to the following candidates who passed the examinations held in November, 1927: Virgil J. Pedrizetti, William H. Ringold, Lorenz A. Ristau and Cyrus H. Ritchie.

### New Jersey

Sixteen candidates for certified public accountant certificates in New Jersey passed the examinations held by the board of accountancy, November 9th and 10th, and certificates have been granted them. The successful candidates are as follows: Robert T. Allen, Benjamin Bateman, Isaac Benwitt, Henry M. Besser, Milton M. Bronstein, Leopold Frankel, Raymond M. Greer, Alexander Lowengrub, David B. Markowitz, Isadore B. Mirsky, Joel Allen Mott, Leonard Post, Reuben Rosenberg, Henry I. Silberman, Abram M. Vermeulen and Clyde A. Zukschwert.

William H. Compton has been reappointed a member of the New Jersey state board of accountancy.

### Pennsylvania

The Pennsylvania state board for the examination of public accountants has recently issued C. P. A. certificates to the following: Thomas G. Aitken, Jr., Harold E. Allen, Richard S. Angle, John J. August, Donald M. Bailey, Hyman B. Berkowitz, Otto T. Biela, Irven G. Bittle, Norman D. Blank, Francis R. Bolles, Isadore O. Brick, Alfred C. Brombach, Boyd J. Brown, William H. Compton, Earle C. Craig, James A. Craig, Raymond M. Dorsch, Robert L. Faris, Jr., Charles J. Faunce, Charles E. Fernald, William H. Funk, James Grant, William K. Grant, Robert M. Griffiths, Byron P. Harris, Floyd P. Karg, Samuel H. Laverty, Herbert K. Litten, John Lockwood, Arthur Lyle, Arlington L. MacBride, Thomas C. MacDade, Cecil C. MacDonald, Daniel J. Madorno, Thomas L. Malley, Frank W. Marshall, Frederick Martin, John B. Millen, George A. Miller, Theodore G. Mohny, Eric Moses, Calvin A. Nichols, Ludwig Nieden, George W. Nolte, Robert A. O'Connell, Harold J. O'Connor, Frank K. Ralston, Hubert F. Ravenscroft, Charles A. Reynolds, Maurice E. Rhoads, George M. D. Richards, Edward C. Romine, Palen P. Rossman, Max Russman, John M. Schlegel, George E. Sharpe, John A. Sickenger, Norbert F. Stanny, Ralph L. Stauffer, John N. Stranford, Paul J. Tate, Joseph S. Thornton, Louis Toth, Edward W. Valensi, Robert J. Walker, Roland W. Weikel, Harry A. Wolf, Melville C. Wooster and Frank J. Zimmerman.

### Washington

Certified public accountant certificates were granted to six candidates who passed the November examinations conducted by the Washington state board of accountancy. The successful candidates are: John E. Chambers, Harold Dalby, Martin Nicholson, James David Scott, J. Addison Smith and Gordon S. Trenholme. Reciprocal certificates were granted to Alfred E. Sawtelle and Andrew Stewart.

### Wyoming

Governor Emerson of Wyoming has appointed E. D. Hiskey to succeed Byron S.

Huie as a member of the state board of accountancy. A. H. MacDougall has been appointed to succeed F. S. Burrage. Messrs. Huie and Burrage had resigned and the appointment of their successors is for the

unexpired terms only. At a meeting of the board held at Casper, December 17th, A. H. MacDougall was elected secretary and E. D. Hiskey treasurer of the board. C. H. Reimerth is president.

## REVIEWS

**FREDERICK H. HURDMAN—"SHOULD GENERAL AND OVERHEAD EXPENSES BE APPORTIONED TO ALL HOTEL OPERATING DEPARTMENTS?"**

Negative side of a debate at a meeting of the Hotel Accountants Association, New York, October 21st.

It was the opinion of the speaker that the information which might be developed by apportioning general and overhead expenses against the operating departments in a hotel would be of little value to the management, and, moreover, that the difficulties of distribution would make a correct apportionment impracticable. Obviously, he said, incorrect results would not only be valueless but might result in serious mistakes in administration. In the ordinary manufacturing or mercantile enterprise, the speaker said, it is usually desirable to obtain the cost or profit of each product sold, and cost calculation in such cases must include every known factor, not omitting overhead expense. The position of the hotel proprietor, however, is not analogous to that of the manufacturer, according to the speaker. All operating departments are usually subordinate to the business of renting rooms, and they do not produce commodities in which total cost, as distinguished from cost excluding overhead, is the determining factor in establishing the selling price of the service. The main activity of a hotel, the renting of rooms, is not competitive in a strict sense, since success in this undertaking depends to a great extent on other things than the price of a room in comparison with similar accommodations at another hotel. Location, service, general attractiveness are all more important than a slight disparity in price, said the speaker. A restaurant, for instance, is ordinarily operated as a necessary adjunct to the renting of rooms. The speaker said that a proprietor would gladly cover his full costs in the restaurant if a knowledge of such costs would enable him to do so, but that the high theoretical cost which would be obtained by a distribution of overhead and general expense against the restaurant would not materially assist in establishing such prices. The basis of prices in a restaurant should be that which would produce the largest possible revenue in excess of direct costs, since its existence is necessary as a complement to the main part of the business. In the speaker's opinion, nothing would be gained by charging this department with any portion of general and overhead expense, even if it were possible to make a fair apportionment. In accordance with the theory that all operating departments in a hotel are subordinate to the business of renting rooms, the speaker said that any loss on the subordinate operations is part of the expense of renting rooms. Any figures purporting to show

the total cost applicable to rooms which exclude consideration of such losses or profits, if they are earned, are incomplete and misleading. On the other hand, if operating losses of other departments were transferred after the distribution of general and overhead expense, the time and trouble in making the distribution would be wasted, for it is just as easy to apply the general and overhead expense directly to rooms along with direct profits or losses of subordinate departments without the previous laborious attempt at distribution. The suggested plan of apportionment is valueless in arriving at selling prices, said the speaker, and does not assist the control of expenses of each department, which is better effected by preserving the identity of each type of expenditure. The value of comparison of operating expense statistics with similar statements for previous periods or like enterprises would be impaired if overhead and general expenses were taken out of the list of items to be compared and were divided among various departments where varying distributing factors would probably not even leave their fractional parts on a comparable basis. A close scrutiny of all expense, which in the speaker's opinion is necessary for efficient management, is most feasible if the expenses are not subdivided and distributed before the preparation of statements. The speaker illustrated the difficulty of obtaining correct formulae for the distribution of each element of overhead and general expense by discussing the item of light and heat, and then by applying the same arguments to such items as front office expense, managers' salaries and rent. The speaker concluded by saying that the difficulties in the proposed distribution of expenses would necessitate the services of engineers, accountants and realty experts to obtain even approximately correct results and would involve a disproportionate expense without serving any useful purpose.

## ERNEST CROWTHER—"THE SOFT-COAL SITUATION"

Address delivered at a meeting of the Pittsburgh chapter of the Pennsylvania Institute of Certified Public Accountants, December 7, 1927.

The speaker said that his discussion of the situation in the bituminous coal industry was evoked by a resolution at a previous meeting of the Pittsburgh chapter of the Pennsylvania Institute of Certified Public Accountants that some helpful solution to the problems of the coal industry might be offered by members of the accountancy profession.

The speaker said that the bituminous coal industry has been partially stagnant since April, 1927, largely because of the unsettled question of wages.

He said that a solution of the difficulty is possible only by government intervention and by the submerging of interests of operators and miners without concern for local advantages. He emphasized the need for regulation which will assure conservation of the nation's bituminous coal fields, adjustment of production capacity to the nation's requirements and stabilization of wages and profits.

In discussing the first of these three essentials, the speaker said that decided progress in the conservation of soft coal has been made in the vicinity of Pittsburgh. He said that conservation of a commodity with resources unlimited to the present generation receives only the thought of a few sincere men with broad vision. Larger operators, he said, are working to accomplish the conservation of soft coal on the following bases: maximum yield per acre production, elimination of wasteful mining operations, decrease of waste in soft-coal consumption, increase of utilization of coal by-products, commercial development of proven research studies.

Attention was next called to the problem of adjusting producing capacity to the nation's requirements. The speaker said that, while Pennsylvania has suffered materially in its decreased output of soft coal and other states have benefited, it is questionable whether or not any adjustment will restore Pennsylvania to the premier position it formerly held. The last quarter-century's growth in industry and transportation has widened the distance between soft-coal production in Pennsylvania and soft-coal consumption. Many large consumers, such as the great steel corporations, produce their own fuel. Many states have greatly increased their coal-mining operations. Labor troubles in Pennsylvania with temporary suspension of production have resulted in ultimate diversion of coal tonnage to other states. This phase together with the abnormal requirements during the war makes necessary an adjustment of capacity to requirement. The speaker said that the developed capacity of mines is far in excess of our national soft-coal requirements. He said that the question would not be solved by removal of other than economic influences in freight-rate controversies or by transfer of benefits from one locality to another by political influence. The speaker claimed that nationalization of mines would be a backward step.

In the opinion of the speaker, soft-coal production might be regarded as a public utility, and he intimated that free competition in adjusting the relation of coal-production capacity to consumption is primitive compared with present methods of attaining economy in operation in other fields. He said that the principle of merging groups engaged in the same activity in the same locality for the purpose of economy must be applied to the soft-coal industry as a whole. Such cooperation would permit a better balanced production schedule, less operating cost, less marketing and less distribution costs.

In discussing the third problem, stabilization of wages and profits, the speaker said that the coal business is probably the most erratic of the major industries as to return on investment, stability of wages and operations. Abnormal profits were the rule in 1917 and in the succeeding years, but taxes and losses of subsequent years incurred by idle mines have practically devoured them. The

speaker cited statistics to show the rate of return earned by bituminous coal companies on their capital stock over a period of nine years and he claimed that the rate of return on investment was entirely out of line in comparison with other businesses of less hazard.

He said that most of the major industries seem to progress with a minimum of disturbance on labor and wage questions. The coal business, he said, while it is a vital part of the nation's business, is the last in line to evidence any intelligent attempt at stabilization of relations between capital and labor and the rate of return on investment. He said that in some quarters the haphazard manner in which mining enterprises have been undertaken is largely responsible for the erratic conditions.

The speaker said that no permanent solution to the soft-coal situation would be obtained until the obstructions between miners and operators have been removed.

As a preliminary step to accomplishing a remedy, the speaker suggested appointment of a review board composed of business technicians such as engineers and accountants, preferably by federal authority, to analyze the situation and report its findings, which would be binding on both operators and miners by mutual agreement.

#### DAVID HIMMELBLAU—"THE REFINANCING BALANCE-SHEET"

Article published in *The Accounting Review*, December, 1927.

The writer says that a condensed balance-sheet reflecting all the adjustments arising from and incidental to proposed financing is often used in the circular issued by bankers in offering securities for sale. The adjustments, he says, fall into three main groups:

1. New funds obtained from: bonds or notes to be sold, stock to be sold, assets to be liquidated; etc.
2. New funds to be utilized to retire funded debt, to retire certain issues of preferred stock, to liquidate short-term debt, for additions to plant.
3. Internal readjustments: reclassification of capital-stock issues; revaluation of assets; stock dividend, etc.

According to the writer the cost of the new financing is usually included in deferred charges and the excess of the funds obtained over funds to be expended is included in the cash item. He illustrates the procedure by a hypothetical example, giving an illustrative balance-sheet before refinancing and indicating journal entries reflecting the proposed transaction. These entries are then posted to the work sheet and the example is concluded with the balance-sheet adjusted to reflect the proposed transaction. The writer then analyzes the final statement to show how the important conclusions may be detected. The hypothetical case is reinforced with two examples from actual practice when balance-sheets were adjusted to reflect proposed refinancing.

The writer says that many different types of adjustments are represented in refinancing balance-sheets, and he gives the following specific adjustments which have been disclosed in sundry statements since 1916: Issuance of bonds, issuance of stock, sale of property, sale of securities owned, liquidating notes payable, liquidation of current

liabilities, retirement of bonds, withdrawal of securities owned, withdrawal of cash, payment of stockholder's personal account, advances to affiliated companies, purchase of plant and inventories, stock dividend, elimination of book value of goodwill, appraisal of goodwill, appraisal of properties, re-adjustment of capitalization.

Interim changes in conditions are of great importance in handling these special statements, says the writer. In one case the sale of capital stock and the incidental adjustments occurred on the date of the balance-sheet, but ordinarily there is an interval between the date of the audited balance-sheet and

the actual date of financing. Examination of the accounts for the intervening months is necessary to be sure that nothing adverse to the company's financial condition occurred in that time. Examples of possible interim changes are fire loss, loss on inventory liquidation, judgments, etc. The writer also stresses the importance of indication of prospective financial condition after the financing is consummated. In summary the writer says the balance-sheet adjusted to reflect financing is a special statement to show what a financial condition would have been if financing had been effected at the date of the balance-sheet.

## OBITUARY

### Olin R. Dean

Olin R. Dean of El Dorado, Arkansas, a member of the American Institute of Accountants, died December 15th. He was admitted to the Institute in 1925.

Mr. Dean was a certified public accountant of Indiana. He was thirty-eight years old and had practised public accounting for more than six years, but at the time of his death he was secretary of the Hanna-Simmins Company.

### Alphonse Sutter

Alphonse Sutter of San Francisco, a charter member of the American Institute of Accountants and a certified public accountant of California, died October 18th. Mr. Sutter had been a member of the American Association of Public Accountants prior to the reorganization in 1916. He had been in practice as a public accountant since 1909.

### S. Herbert Wolfe

S. Herbert Wolfe, member of the American Institute of Accountants since 1924, died December 31st at Mount Sinai hospital, New York. He was fifty-three years of age.

General Wolfe was a certified public accountant of Indiana. For several years he had practised in partnership with his brother under the firm name of S. H. and Lee J. Wolfe. General Wolfe was regarded as an authority on insurance and rendered valuable service to the government during the war. He was awarded the Distinguished Service medal, the cross of the Legion of Honor and the Masonic Peace medal, issued by George V of England. In 1921 he received appointment as brigadier-general in the officers' reserve corps.

Funeral services were held January 2nd at the Ethical meeting house, New York.

## HERE AND THERE

Anderson, Kroeger & Co., Minneapolis, announce the admission of George P. Schmal to general partnership in the firm.

Barrow, Wade, Guthrie & Co. announce the removal of their Utica, New York, offices to the First National Bank building.

Austin L. Beaujon, New York, announces the removal of his office to 342 Madison avenue.

Child, Smith & Young announce the removal of their Hartford, Connecticut, office to the Capitol building, 410 Asylum street.

Elliott, Andrews & Ivy announce that the practice formerly conducted by Edward

S. Elliott & Co. and the practice conducted by T. A. Andrews & Co. have been consolidated under a copartnership with offices in the Bank of Commerce & Trust building, Memphis, and the Peoples Bank building, Jackson, Tennessee.

Gano & Cherrington, Cincinnati, Ohio, announce their removal to offices in the Chamber of Commerce building.

Willard R. Ginder, Philadelphia, announces the opening of an office at 1828 Widener building.

Spaulding F. Glass & Co. announce that W. L. Hausman has been admitted to partnership in the firm. Mr. Hausman

is in charge of the firm's office at Independence, Kansas.

Hein, Greene & Wolcott announce a change of address to 504-505 Capitol Theatre building, Binghamton, New York.

Horwath & Horwath announce removal of their offices to the French building, 551 Fifth avenue, New York.

Harry R. Howell and A. S. Cureton announce the formation of a partnership under the name of Howell, Cureton & Co., with offices at 706-7 Kanawha National Bank building, Charleston, West Virginia. Thomas R. Wilson will be associated with the firm as a junior partner.

S. J. Levenson, New York, announces the removal of his office to 424 Madison avenue.

Morgan & Co. announce the removal of their offices to 1813 Packard building, Philadelphia.

Orlando C. Moyer & Co., 201 Devonshire street, Boston, announce the admission of Daniel F. Condon as a member of the firm.

Announcement has been made of the establishment of the firm of Pace, Gore & McLaren, with executive offices at 30 Church street, New York, for the practice of accountancy in conjunction with the affiliated firms of accountants now practising in sixty-two cities in the United States, Canada and Cuba. The firm of Pace, Gore & McLaren is composed of the following accountants, each of whom is a local affiliate or a member of a firm that is a local affiliate of the affiliated firms of accountants: T. Coleman Andrews, Richmond; George Armistead, Houston; George B. Buist, Fort Wayne; Frederick Bond Cherrington, Boston; George H. Cheyne, Milwaukee; R. M. Crane, Denver; William P. Field, Havana; John M. Gilchrist, Omaha; Edward E. Gore, Chicago; H. W. Hennegin, Little Rock; Joel Hunter, Atlanta; Chester Arthur Jordan, Portland, Maine; Lincoln G. Kelly, Salt Lake City; L. T. Konopak, Toledo; Eugene M. Lynn, Kansas City, Missouri; W. Mayors, St. Louis; D. H.

McCollough, Charlotte; Norman Loyall McLaren, San Francisco; Howard E. Murray, Akron; Carl H. Nau, Cleveland; George S. Olive, Indianapolis; Homer S. Pace, New York; Willis H. Plunkett, Phoenix; O. G. Richter, Pittsburgh; Ernest A. Roden, Cincinnati; Charles H. Schnepfe, Jr., Baltimore; Winfield Q. Sharp, Jackson, Mississippi; L. B. Smith, Dallas; Stanley Spurrier, Wichita; Herbert M. Temple, St. Paul; T. A. Thurston, El Paso; William Whitfield, Portland, Oregon.

Robert Nash Phinney announces the opening of an office for practice on his own account in the Hudson Terminal building, 30 Church street, New York.

Rothman & Rothman, Los Angeles, announce the removal of their offices to suite 810, Union Bank building.

Frederic A. Smith announces that he has resumed the practice of accounting at 219 Dwight building, Kansas City, Missouri.

Temple, Brissman & Co. announce the admission to partnership of Ernest W. Carlson, Arthur E. Haslund and Harry S. Temple.

It is announced that the firm of Townsend, Dix & Pogson expired by limitation December 31, 1927, and that on and after January 1, 1928, the following will practise at 280 Broadway, New York, under the firm name of Townsend & Dix: Ferdinand C. Townsend, Samuel M. Dix, Paul D. Chase, John B. Clifford, Meredith B. Lovelace, Ernest Shaw, Elmer O. Gray and James B. Smith.

F. Ralph Wheeler, Philadelphia, announces the removal of his offices to room 1828, Widener building.

The following paragraphs report activities of members and associates of the Institute:

Reynold E. Blight, Los Angeles, made an extensive trip through the United States and Canada during October and November to speak before the Shrine temples of North America, making an appeal for the Shriners' hospitals for crippled children.



William D. Bonthron, Detroit, addressed the local chapter of the National Association of Cost Accountants, November 17th, on "Inventories."

J. A. Boulay, Minneapolis, spoke before the Twin Cities chapter of the National Association of Cost Accountants, November 15th, on "Burden application; actual cost method; a standard cost method."

H. C. Daines, Chicago, spoke before the Illinois Association of Commercial Teachers, November 18th, on "A balanced curriculum for commercial subjects."

A. D. Lewis, Casper, Wyoming, spoke at a regional meeting of Lions' clubs of Big Horn Basin in Wyoming, November 22nd, on the benefits of Lions' clubs to a community.

Edward B. Millar, New York, spoke on "Budgets—their use and value in modern business" at a meeting of the New York Society of Accountants, October 25th.

Paul L. Morrison, Chicago, spoke before the Investment Analysts Club of Chicago on November 15th and 29th on "Public-utility holding companies."

*The Recorder*, San Francisco, for December 15th contained an article by Charles H. Peterson of that city on the working relationship between public accountants and attorneys.

P. W. Pinkerton, Chicago, addressed the Kiwanis club of Libertyville, Illinois, November 17th, on the natural business year. On November 30th Mr. Pinkerton spoke at a meeting of the Michigan Society of Certified Public Accountants at Detroit, on "The accountant's task."

On November 15th, G. Harvey Porter, Baltimore, addressed the local chapter of the National Association of Cost Accountants on "Cost accounting as an aid to management."

Joseph L. Pyle, Wilmington, Delaware, read a paper entitled "How to finance real-

estate transactions," December 22nd, and spoke on building and loan associations and real-estate mortgage bonds, January 5th, at the Y. M. C. A. school in Wilmington. Mr. Pyle is one of a number of speakers in a course on real-estate fundamentals conducted by the joint commission on real-estate education representing the United Y. M. C. A. Schools and the National Association of Real-estate Boards.

"Reminiscences of twenty years of public accounting" was the subject of an address by Stephen G. Rusk, Cleveland, at the November 1st meeting of the Marietta, Ohio, Kiwanis club.

At a meeting of the Philadelphia chapter of the Pennsylvania Institute of Certified Public Accountants on October 19th, Michael J. Sigafos spoke on the value of the balance-sheet to the executive.

Irwin C. Snyder, Pittsburgh, addressed a meeting of the Johnstown (Pennsylvania) Society of Accountants, November 29th, on "Ratios."

Henry W. Sweeney has received the only class A prize awarded in the annual contest conducted by Hart, Schaffner & Marx for theses on economic subjects. Mr. Sweeney's thesis was entitled "Stabilized accounting." An article by Mr. Sweeney entitled "Effects of inflation on German accounting," based on his thesis, appeared in *The Journal of Accountancy* for March, 1927.

C. B. Williams, Cleveland, spoke before a meeting of office managers at Columbus, Ohio, October 26th, on "The human factor in office management."

J. A. Watson, San Francisco, has been appointed chairman of the patronage committee of the industrial department of the chamber of commerce in his city and is a member of the regional industrial conference of the California Development Association.

# Bulletin Supplement

January 16, 1928.

## To Members and Associates of the American Institute of Accountants:

The board of examiners has given consideration to applications for admission to the American Institute of Accountants. Fifteen applicants took the written examinations in November, 1927, and 4 passed, 4 were conditioned and 7 failed. Of those who passed 3 are believed to be eligible for membership and 1 for associate membership. Eight applicants for admission as members and 6 as associates were given credit for having already passed an Institute examination for a C. P. A. certificate in a coöperating state. Credit for having passed satisfactory examinations other than those of the Institute was given 6 applicants for membership. Four applicants for membership and 1 for associate membership passed oral examinations conducted by the board. The board recommends the advancement of 4 associates to membership.

Following is a list of those whose election is recommended by the board of examiners:

### *For Advancement to Membership:*

Robert A. Bryant, Chicago  
William J. P. Moonan, Cleveland  
Clarence W. Scott, Providence  
Robert F. Smart, Chicago

### *For Admission as Members:*

George H. Adams, Charlotte  
Earl G. Ainslie, Houston  
Carl F. Bauman, New York  
Charles E. Baxter, Providence  
John W. Burrows, San Francisco  
William J. Christian, Birmingham  
Clarence J. Farris, Memphis  
Roy C. Fischer, St. Louis  
Milton T. Howard, New York  
Elton C. Loucks, Omaha  
John B. McCabe, Wilmington, N. C.  
Paul W. Murdock, St. Louis  
Orion M. Perrenot, Chicago  
Knox B. Phagan, New York  
Jay A. Phillips, Houston  
J. Edward Schierloh, Hackensack, N. J.

Marshall M. Thomas, New York  
Robert F. Tillison, New York  
Luther K. Watkins, Buffalo, N. Y.  
Thomas A. Williams, New Orleans  
Bernard C. Wolcott, Binghamton, N. Y.

### *For Admission as Associates:*

Thomas G. Brady, Chicago  
Wright T. Dixon, Raleigh  
Samuel Fanger, Boston  
Doras S. Jeppson, Honolulu, T. H.  
Albert E. Jordan, San Francisco  
Worcester Putnam, St. Petersburg, Fla.  
William D. Shay, New York  
Carleton M. Tower, Chicago

These applicants do not become members (or associates) of the Institute until they are elected by the council which is now voting by mail ballot. If protest is to be made by any member or associate against the election of any person whose name is on the list, it should reach the offices of the Institute by February 1st.

A. P. RICHARDSON, *Secretary.*

# BULLETIN

OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS

135 CEDAR STREET, NEW YORK, N. Y.

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FEBRUARY 15, 1928

SERIES B, No. 46

## Institute Elects Members

Pursuant to the recommendation of the board of examiners and the vote of the council, the president of the Institute has declared the following applicants elected as of February 1, 1928:

### *Advanced to Membership:*

Robert A. Bryant, Chicago  
William J. P. Moonan, Cleveland  
Clarence W. Scott, Providence  
Robert F. Smart, Chicago

### *Admitted as Members:*

George H. Adams, Charlotte  
Earl G. Ainslie, Houston  
Carl F. Bauman, New York  
Charles E. Baxter, Providence  
John W. Burrows, San Francisco  
William J. Christian, Birmingham  
Clarence J. Farris, Memphis  
Milton T. Howard, New York  
Elton C. Loucks, Omaha  
John B. McCabe, Wilmington, N. C.  
Paul W. Murdock, St. Louis  
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Knox B. Phagan, New York  
Jay A. Phillips, Houston  
J. Edward Schierloh, Hackensack, N. J.  
Marshall M. Thomas, New York  
Robert F. Tillison, New York  
Luther K. Watkins, Buffalo, N. Y.  
Bernard C. Wolcott, Binghamton, N. Y.

### *Admitted as Associates:*

Thomas G. Brady, Chicago  
Wright T. Dixon, Raleigh  
Samuel Fanger, Boston  
Doras S. Jeppson, Honolulu, T. H.  
Albert E. Jordan, San Francisco  
Worcester Putnam, St. Petersburg, Fla.  
William D. Shay, New York  
Carleton M. Tower, Chicago

## Institute Examinations

The board of examiners of the Institute has decided that the spring examinations of

the American Institute of Accountants shall be held May 17 and 18, 1928. Examinations will be conducted in New York and in other cities according to the convenience of applicants.

## President Attends Meeting at Los Angeles

John R. Ruckstell, the president of the American Institute of Accountants, was the guest of honor at a meeting of the Los Angeles chapter of the California State Society of Certified Public Accountants, January 9, 1928. About seventy-five accountants were present at the meeting, which was held in the Masonic club. The chapter had courteously issued invitations to all practising accountants in the vicinity to attend, whether they were members of the chapter or not.

Mr. Ruckstell's message emphasized the desirability of advancing the interests of the accountancy profession through organized effort. In the course of his remarks he urged a larger membership and increased interest in chapter, in state society and in the American Institute of Accountants, indicating that in the Institute is to be found an organization of national objectives, free from political influence under local environment and therefore not affected by such political manipulation as from time to time has injured professional accountants in the different states or state legislatures. A summarized outline was given of the various major activities of the American Institute of Accountants, indicating helpful, harmonious, consistent and substantial co-operation with the various state societies.

At the conclusion of the president's address, I. Graham Pattinson, responding to the chairman's invitation to discuss the address, affirmed what the president had said and further urged the coöperation of those present to strengthen the Institute. Brief remarks by other speakers concluded the proceedings.

### **1927 Year-book**

The year-book of the American Institute of Accountants for 1927 was mailed to members and associates on December 16th. Extra copies of the book are on sale at a price of \$1.65 delivered in the United States and Canada. The year-book contains lists of officers, members of council and committees; the names of members and associates; report of the proceedings of the annual meeting of the Institute at Del Monte in September, 1927; reports of the officers, council and committees; members of state boards of accountancy, and by-laws and rules of professional conduct of the Institute. The book contains 203 pages.

Members or associates who have not received copies of the year-book should notify the Institute immediately. It is requested that any errors which may be found be reported so that the Institute records may be corrected.

### **T. H. Winter**

T. H. Winter, a member of the American Institute of Accountants and a C. P. A. of Florida, died November 27, 1927. Mr. Winter had been a member of the Institute since 1916, and prior to that time was a member of the American Association of Public Accountants, the Institute's predecessor. He had been practising on his own account in Jacksonville, Florida.

### **Income-tax Blanks**

The following letter has been received from the treasury department in response to an inquiry made by the Institute at the instance of a member, with reference to the difficulty experienced by accountants in obtaining a sufficient number of blank income-tax forms for use in preparing the returns of clients:

January 20, 1928

Dear Sir:

Receipt is acknowledged of your letter of January 10, 1928, with reference to the insufficient number of income-tax blanks which are available for the use

of accountants through the offices of Collectors of Internal Revenue.

In reply you are informed that the Bureau's policy is not to furnish accountants and others concerned with supplies of blank forms direct from Washington. The distribution of all internal-revenue forms has been placed for several years in the hands of the Collectors. The Bureau is convinced that these field officers are in a far better position to satisfactorily cater to the needs of taxpayers in their respective districts than is the Bureau in Washington. You cite the complaint of an accountant located in Minneapolis, Minn., who last year was unable to secure all the income-tax forms he required. There should have been no scarcity of forms in the Minnesota District last year, as the Department here had a sufficient supply at all times to meet the requests of Collectors of Internal Revenue, and as these forms are always shipped by mail there is little likelihood that any serious delay could occur in replenishing the stock in Collectors' offices. Mr. Willcutt, the Collector at St. Paul, is one of the most efficient field officers of the Internal Revenue Service. The Bureau is of the opinion that if your member did not secure the service he required, and had taken up the matter with the Collector personally, he would have had no cause for complaint.

In the distribution of blank forms, the Bureau is regularly referring to each Collector the requests which originate in his district. The department, therefore, suggests that whenever the members of your Institute are unable to secure sufficient forms through the regular channels of a Collector's office, the matter be taken up personally with the Collector, presenting information that will be conclusive to him as to the forms required. If this is done it is believed that your members will have no further trouble of this kind.

Very respectfully,  
(Signed) C. R. NASH,  
*Assistant to the Commissioner*

### **Special Bulletin of Bureau of Information**

The committee on administration of endowment of the American Institute of Accountants has authorized the publication by the library and bureau of information of a special bulletin containing questions and answers obtained by the bureau during recent months. The current bulletin is the twenty-ninth of a series of similar publications which have been issued at intervals for many years. The pamphlet contains 8 pages and is devoted to the following subjects: appraisal of fixed assets, canning costs, contingent reserves, corporation accounting, corporation finance, depreciation of greenhouses, laundries cost accounting, participation mortgage bonds and New York franchise-tax bill. Copies of the special bulletin are mailed with this *Bulletin* to all members and associates of the

American Institute of Accountants. Extra copies are available at a price of 10 cents each.

### **New Supplement to "Accountants' Index"**

The library of the American Institute of Accountants is preparing a new supplement to the *Accountants' Index*, including references to accounting literature published since the issuance of the first supplement in July, 1923, up to January, 1928. The new volume will probably be published next May.

### **Bureau for Placements**

The latest report of the bureau for placements of the American Institute of Accountants shows that 78 college graduates have been placed with public accounting firms through the bureau's agency in a period of less than two years. Three applicants were employed in January, 1928. Thirty-two applications are at present under investigation by the bureau to determine whether they shall be approved or rejected. In all, 524 applications have been received, of which 249 were rejected by the committee for placements as not conforming with the standard established by the bureau. One hundred and sixty-five applications are at present inactive for various reasons.

Arrangements have been made for the personal appearance of representatives of the Institute at various colleges to explain to students the opportunities in accountancy as a career and the efforts of the bureau to assist college men to enter the profession. In January, C. Oliver Wellington addressed students at Tufts College and Northeastern University and A. P. Richardson spoke at Lafayette. Arrangements are in progress for visits to the University of Vermont, Middlebury College, Ursinus and Yale during March.

### **Survey of Accountancy Legislation for New York**

Conclusions and recommendations for accountancy legislation, based upon a thorough and impartial survey of the whole question of legal regulation of the profession, are included in a report of the legislation survey committee of the New York State Society of Certified Public Accountants, issued under date of January 14, 1928. The report, of course, is particularly applicable to

New York, but its generalities may apply to any state.

In October, 1927, the same committee issued a brief preliminary report stating its progress up to that time. This report was published in the November, 1927, *Bulletin* of the Institute. The latest report has been printed in pamphlet form by the state society.

After an introductory statement of the impersonal and impartial attitude which the committee has attempted to adopt, the report outlines the problems involved in the consideration of accountancy legislation and reviews the measures which have been suggested to solve them.

The difficulty under the present law of prosecuting and punishing public accountants who issue false or misleading statements has been mentioned as one formidable question, according to the report. The continued practice of public accountants who are obviously unqualified to render professional services is given as another. The committee's own attitude on these questions is revealed later in the report. There is also difficulty in the present situation because many of the most respected practitioners in the state are not certified public accountants of New York and, therefore, sign their reports above some other title than C. P. A. The interstate practice of accountancy makes it increasingly difficult to regulate it adequately and fairly by state laws.

The report, in proceeding to discuss curative methods which have been proposed, first mentions the suggestion that the state board be given broad and arbitrary authority to determine in its own discretion who may be permitted to practise accountancy. The possibility of occasional injustice in such circumstances and of political pressure influencing such an autocratic board is advanced as argument against the idea, although it is made clear that these objections are not considered applicable to any plan based on examinations and educational qualifications, such as the one now in effect. However, it has been urged that injustice would be done to already established accountants by an innovation requiring them to prove themselves qualified by a new standard, and the only alternative in creating new regulations would be a broad waiver clause. The report says that there is no serious support for a "wide-open" waiver to

all present practising accountants, but that there is sentiment in favor of a modified plan, whereby all accountants in practice at the passage of the law who thereafter continued professional practice for a certain period of years might be granted certificates without examination or other educational qualifications.

Attention is called to the fact that all plans proposed embody regulations of some kind by a state board. The so-called "two-class" legislation is referred to, under which both certified public accountants and public accountants would be subject to regulation and control by the authorities. The two-class plan might be constructed for permanency or it might be operated so as to abolish eventually all but certified public accountants, by discontinuing the issuance of further licences to uncertified public accountants after the law went into effect.

The report points out that the several systems of regulation mentioned are all departures from the present situation, in which anyone may practise public accounting, the only restriction being upon the use of the title "C. P. A."

The committee reviews this general discussion with a summary analysis of the various types of law suggested, most of which do not involve radical change in the present requirements as far as the C. P. A. certificate is concerned, although many of the plans do include innovations such as universal registration or provision for the issuance of certificates by waiver.

As a result of this survey of the possible changes, the committee has agreed upon four basic conclusions:

1. The need of new legislation is not as great as the danger of unwise legislation.
2. There are many points in the present system which might be changed without new legislation, or at most, with only minor changes in the present law.
3. There should be no general let-down in the present standards of the profession.
4. Whatever legislation is recommended for New York state must be of a type that New York accountants would be glad to see adopted by other states.

With these principles in mind the committee has directed its attention to the two main points at issue: the possibilities of amending the existing law regarding certified public accountants, and the question of restrictive legislation.

The report recommends that the present law stay as it is except for the following changes, which, if made, should be enacted as separate and distinct legislation:

"(a) That the board of examiners should be increased from three to five members, one of whom should be a member of the bar. We believe that the membership of the board should be so increased. We recommend amendment of the present law accordingly.

"(b) That the board of examiners should be authorized to employ necessary professional and clerical assistance. This we believe is reasonable and desirable but feel that the board of examiners and the regents are best qualified to pass on what would be the desirable provisions along this line and that specific recommendations should come from them.

"(c) That the board of examiners should have power to administer oaths and subpoena witnesses and documents essential to proper determination of matters before it. This we believe to be distinctly desirable. We recommend amendment of the present law accordingly.

"(d) That the power of revocation of certificates and the procedure therefor should be more clearly stated. This we believe is desirable and recommend that the present law be amended so as to include the following provision." (Here is quoted a section from the Cuvillier bill of March 30, 1926. The same or substantially similar provisions have been included in other proposed bills.)

"(e) That the present provision for granting without examination a certificate to a certified public accountant of another state should be modified so that it would not require three years' practice in the state which granted such C. P. A. certificate (as the present provisions are now interpreted to mean). We believe that the three-year requirement for practice within such state can well be waived and reliance placed upon the discretion and rules of the department to see that certificates are not improperly issued to C. P. A.'s of other states, or withheld from them. We recommend amendment of the present law accordingly.

"(f) That the use, under logical liberal provisions of law, of the description 'certified public accountants' by accounting partnerships should be encouraged. We recommend appropriate legislation to this end."

The committee announces itself as opposed to enactment of any form of restrictive legislation in New York at the present time, although it considers the Michigan type of two-class law the most satisfactory kind of restrictive statute.

The following conclusions are stated in the discussion of restrictive legislation:

(a) The committee is unalterably opposed to any admission of certified public accountants by general waiver.

(b) C. P. A. certificates should be granted only on a positive showing of qualification.

(c) The committee would not be opposed, if restrictive legislation were adopted, to a provision that any holder of a certificate of authority who

shall have been registered for the three consecutive years prior to making his application, and who can show a total of five years' satisfactory experience should be entitled to take the C. P. A. examination at any time within twelve years, and upon passing it successfully should have issued to him a C. P. A. certificate.

(d) In any restrictive legislation it should be provided that after the passage of the act no further charters be granted to corporations for practising public accounting.

(e) If such restrictive legislation should be adopted, the only titles to be used should be "certified public accountant" for holders of the C. P. A. certificate, and "public accountant" for all those holding certificates of authority.

(f) If in such restrictive legislation any provisions were adopted relating to a period of experience, such experience shall be in independent practice or as a partner in a firm or on the staff of individual or partnership practitioners.

The committee bases its objections to restrictive accountancy legislation in general on the apparent lack of public necessity for such restriction. Granting that under the present law there is no guaranty of the complete qualification of every practising accountant nor of his integrity, the report says that protection is available to clients and the public in the exercise of discrimination in selecting accountants. Clients have their ready remedy, it is said, by engaging certified public accountants, and the same power is vested in banks and credit organizations, which are exercising it with increasing frequency. Stockholders may insist on the same protection. It is the belief of the committee that there is little protection in restrictive legislation which is not already available to the public or which could not better be made available in some manner other than restrictive legislation. On the other hand, the report says:

"We believe that some of those urging restrictive and regulatory legislation have made too much of the cases of incompetence or lack of integrity which occasionally exist. Greatly as we deplore that there should be any such instances, we doubt if in number or in gravity they are, as accountancy exists today, as serious as the similar abuses in the most drastically regulated of the professions. Law and medicine touch all classes, from the highest to the lowest of our people. There is an argument for restriction and regulation of those professions which must be relied on by all the people, no matter how poor or ignorant or uninformed they may be. This argument does not apply to accountancy because an accountant's statement is of little value to a man who has not the intelligence necessary to understand it. The work of the accountant is not to guarantee the soundness and integrity of the business whose accounts he examines. His duty is rather to present a correct statement of the facts so that they may be properly understood and con-

sidered by the men of reasonable intelligence who receive his report."

The greatest danger in restrictive legislation, it is said, is that it would be considered by many to give a security and protection which necessarily it can not give. The committee feels that government regulation is not a cure-all, and that it is justified only where, in spite of its imperfections, it is preferable to conditions which would otherwise exist. In the present accountancy situation, or in prospective developments, the committee finds nothing to warrant restrictive legislation in New York. The argument closes with the following statements:

"Accountancy under the present law has developed well in the past and we believe will continue similarly to develop in standards and accomplishment in the future. Conditions can not be radically wrong when accountants are accorded the high place in public esteem which they now hold and which seems today to be increasing rather than diminishing. We believe that in accountancy, as in other fields of human endeavor, greater progress is apt to result in an open field with free competition than under close restriction and regulation. We can not see in the existing situation the outstanding public necessity which alone would justify restrictive legislation."

This report was presented to the board of directors of the New York State Society of Certified Public Accountants at a meeting on January 16, 1928, where the following resolution was adopted:

"RESOLVED, that the board accepts with sincere thanks the unanimous report of the legislation survey committee dated January 14, 1928; that the board records its appreciation of the committee's thorough, exhaustive, scholarly and impartial consideration of accountancy legislation; that it accedes to the committee's oral request to be discharged; and that a copy of the committee's report should accompany the call for a special meeting of the society to discuss and consider the said report.

"RESOLVED FURTHER, that the board approves the findings of the committee as to the present non-existence of a public necessity for restrictive legislation and the committee's recommendations in regard thereto, and in turn repeats these recommendations to the society.

"AND RESOLVED FURTHER, that the board recommends to the society that when, as and if the public necessity for regulatory legislation should arise, the society should then support two-class legislation generally of the so-called Michigan type, provided such legislation has the approval of the regents of the University of the State of New York."

At a special meeting of the society, January 30th, called to consider the report, a resolution was adopted favoring amendment of the present C. P. A. law so as to

strengthen and improve it in the following particulars:

- (a) To increase the membership of the board.
- (b) To provide for necessary professional and clerical assistance to the board of examiners.
- (c) To give the board power to administer oaths, subpoena witnesses, etc.
- (d) To state more definitely the power to revoke certificates and the procedure.
- (e) To eliminate in the case of a C. P. A. of another state the requirement that he should have had three years' practice in the state which granted such C. P. A. certificate.
- (f) To encourage the use of the C. P. A. title by accounting partnerships.

A limited number of copies of the committee's report, in pamphlet form, is available. They may be obtained upon request, until the supply is exhausted, from the New York State Society of Certified Public Accountants, 110 William Street, New York.

### No-par-value Stock Dividends

In an article in *The New York Law Journal* by Harrison Tilghman of the New York bar, an argument is made against the necessity of transferring any part of surplus to capital account in the case of so-called stock dividends where no-par stock is used.

He argues that the only sound basis for a transfer from the surplus item to the stated capital item is some need for an increase in the capital permanently allocated to the business, coupled with the existence of a surplus fund adequate not only to supply this need, but also to leave a remainder in surplus sufficient to meet the needs of the business for such an account. He says that one of the principal advantages, to both a corporation and its shareholders, of a no-par capital structure is the fact that such shares may be issued from time to time for considerations determined by the condition of the business and of the market.

Mr. Tilghman asks why any other norm should be set up, or for that matter why any norm of this character should be set up when the proportionate interest of stockholders is undisturbed.

He suggests that where it appears necessary to transfer surplus to capital in order to free that surplus from assaults by a selfish and unscrupulous management, the remedy is not to remove the surplus, but the management.

He sums up his arguments by suggesting that no-par be recognized as no-par and be treated accordingly. Acquiescence by a

corporation under extra-legal regulation or the effects of such extra-legal regulation should not operate to establish quasi-par value as a rule of law, nor should it be permitted to operate to destroy the legislative sanction now enjoyed by true no-par-value shares.

### Accounting Part of Summer Course for Business Executives at Harvard

A course in accounting policies will be included in a special session for business executives to begin next summer at the Harvard business school, it was announced on January 19th. This course will be in charge of Professor William Morse Cole, Professor T. H. Sanders, Assistant Professor A. W. Hanson and Homer N. Sweet of Lybrand, Ross Bros. & Montgomery.

Other subjects which may be studied by business men who attend the sessions will be business policy and the law; finance; marketing, sales management and advertising; marketing, retail-store management and advertising; public-utility management and economics, and railway transportation. The policies and objectives of accounting in business are the primary subject of the course in accounting policies. Actual cases will be discussed and analyzed with only illustrative reference to technique and details of procedure. Published financial statements and statements furnished to creditors revealing divergent practices in accounting, as well as determination of accounting policies according to requirements of economy and efficiency in the internal control of operations and properties, will be covered by the course.

It is planned that the session will be of six weeks' duration, beginning with registration July 7th and concluding with final examinations August 18th. Each course will require the full time of the student and the classes will meet four hours daily.

The dormitories of the new Harvard business school will be open for the session, affording an opportunity for intimate personal acquaintance among the business men in attendance. A limited number of teachers of business will be admitted, although the courses are intended primarily for business executives. The total number of students will be limited and applications should be submitted immediately to insure acceptance.



## Patent Appraisals

The purposes and procedure in patent appraisals were explained by Frank M. Carhart of Jackson & Moreland, engineers, at a meeting of the Massachusetts Society of Certified Public Accountants, December 27, 1927.

Mr. Carhart said that patent appraisals had been made by his firm only within the last ten years and had been made for three purposes: (1) to determine March 1, 1913, values for the income tax and recoupment to a company for the depletion of its assets; (2) to determine fair value to set up on the company's books; and (3) for the purpose of purchase and sale.

He said that the rights in a patent may be as follows: (a) ownership in fee; (b) shop-right, where the inventor uses the shop of a company to develop a patent, which gives the company the right to use the patent without paying a licence fee; (c) licensee under a patent, the value to the licensee being dependent on whether or not he has an exclusive right to manufacture under the patent, and (d) application for a patent, which is property according to a supreme court decision but has been ruled out by the treasury department as having no definite life.

Mr. Carhart said that in valuing a patent there are two principal factors: first an investigation of the different patents in the company's possession with a view to ascertaining whether or not any attack has been made on them as to infringement of other patents, etc., and second, consideration of what the company has done with the patents from a commercial point of view, which involves a study of the total output of the company compared with the output of all other similar companies in this country and the world, and study of the number and financial standing of competitors.

The actual value of the patents is dependent on the prospective profits to be derived from them. The only basis of valuation at hand, however, is the profits already made. After determining what these profits have been, a purpose for which accountants are frequently engaged, the appraiser computes a return on the investment, determines what he considers to be profits attributable to goodwill value, and assigns the balance of the profits to patent value.

If the competitors of the company are large and offer formidable competition, more value must be allocated to goodwill relatively than to patents. The production history prior to the date of determining the value is basic, but it is also important to substantiate it by subsequent results if possible. A forecast must also be made of expected future profits, dependent on the prospective growth of the industries that use the patent as well as the company which manufactures under it.

Mr. Carhart said that the treasury department in Washington was still following rather closely A. R. M. 34 in determining values at March 1, 1913. He was entirely out of sympathy with this basis of valuation if the previous trend was markedly up or down. The department, Mr. Carhart said, used Hoskold's method to determine the present value, a procedure which was originally used for valuing leaseholds of coal mines.

Returning to the subject of value itself, Mr. Carhart said that the earnings from the patent might be estimated to the saturation point in the industry and a proportion of those earnings allocated to interest, goodwill and patent value. On the other hand, it is advisable, where possible, to estimate the royalties to be paid by the licensees. This he thought on the whole to be the best basis. He gave as third alternative estimation of the savings that would be effected by the use of the patents, although this information is usually difficult to obtain.

In the discussion which followed his address, Mr. Carhart said that he could value only patents which had been commercially proven, that is, from which money had been made. It is impossible to estimate satisfactorily the value of patents which have not been demonstrated, he said, and in his opinion there is little goodwill value in the case of monopolies, except in unusual cases where the service element is stressed. When asked if he gave consideration to subsequent improvements to a patent, he replied in the negative, but he did attach importance to the question of obsolescence. Mr. Carhart also said that frequently it is necessary to determine a value for a group of patents and then to allocate that value to the different patents over their respective lives.

## Court Decision on Inventory Method

Following is the text of an opinion rendered by the United States circuit court of appeals, fifth circuit, on a petition for review of a decision by the board of tax appeals concerning a taxpayer's merchandise inventory:

UNITED STATES CIRCUIT COURT OF APPEALS—FOR  
THE FIFTH CIRCUIT

*S. G. Sample Company, Ltd., petitioner, versus  
Commissioner of Internal Revenue, respondent*  
Petition for review of decision of United States  
board of tax appeals, from the western district of  
Louisiana.

Before WALKER, BRYAN and FOSTER, circuit  
judges.

WALKER, circuit judge:

The petitioner, a Louisiana corporation engaged in the retail merchandise business, dealing in hardware, shoes, clothing, dry goods and groceries, by appeal to the board of tax appeals complained of the action of the commissioner of internal revenue in increasing petitioner's taxable income for the year 1920 in the amount of \$12,078.52 by adding that amount to the total amount of petitioner's inventory of goods or merchandise on hand at December 31, 1920, as shown on petitioner's original return for the year 1920. That amount was 25 per cent. of the total cost of goods shown on petitioner's inventory of goods on hand on December 31, 1920, which was inventoried at cost less the 25 per cent. Merchandise on hand at the close of that calendar year had been purchased in 1920, 1919 and some in earlier years. It appears from the finding of facts and opinion of the board of tax appeals that its approval of the disallowance of the deduction from cost was based on the fact that the inventory as taken did not state separately cost and value of each item, only the cost of each item being separately stated, the 25 per cent. deduction being made from the aggregate amount of the costs of the items listed.

Evidence adduced before the board of tax appeals was without conflict to the effect that the method adopted by the petitioner in taking the inventory is the one generally used by retail merchants, that all the classes of goods included in petitioner's stock greatly decreased in market value after they were purchased, the rate of decline being different in different classes of goods, and that the average decline was such that the market value of the stock of goods on December 31, 1920, was at least 25 per cent. less than the cost thereof.

The revenue act of 1918 contains the following:

"SEC. 203. That whenever in the opinion of the commissioner the use of inventories is necessary in order clearly to determine the income of any taxpayer, inventories shall be taken by such taxpayer upon such basis as the commissioner, with the approval of the secretary, may prescribe, as conforming as nearly as may be to the best accounting practice in the trade or business and as most clearly reflecting the income." 40 Stat. 1060.

A regulation prescribed pursuant to that provision requires the taxpayer to take his inventory at

"(a) cost, (b) market, whichever is lower," Reg. 45, art. 1582. So far as we are advised there was no prescribed requirement as to describing or identifying articles listed further than by naming them and stating their number and cost, or as to the manner of ascertaining or disclosing market value, when the inventory is taken at market. A list of the articles contained in a stock of merchandise stating as to each item the name, number and cost thereof, is an inventory, and is not kept from being an inventory taken at market because a separate market value is not assigned to each article, and the market value of the stock was arrived at by a percentage deduction from the cost of the stock as a whole. *Southern Fire Insurance Co. v. Knight*, 52 L. R. A. 70; *Wood v. Ewer Co.*, 14 Fed. (2d), 995. It can not reasonably be said that it is incapable of being proved by evidence that at a given time there had been such a change in the market values of the articles comprising a retail merchant's stock, consisting of hardware, shoes, clothing, dry goods and groceries, that the market value of the stock at that time could be arrived at with reasonable accuracy by adding to or deducting from the total cost of the stock a stated percentage of such cost. The effect of the ruling in question was to deprive the petitioner of the opportunity to prove by competent evidence that the market value of its stock on December 31, 1920, was 25 per cent. less than the cost of that stock shown by an inventory thereof taken in the customary way. We think that ruling was erroneous. Because of that error the order or judgment under review is

REVERSED.

## Change in Date of Management Week Proposed

A meeting of the national committee on management week was held January 25th to consider the secretary's report on operations for the year 1927.

It was the consensus of opinion of those present that the next management week might be held in the early spring of 1929, rather than next October, which has been the usual month for its observance, to avoid a possible distraction of interest from management week by the presidential election next fall.

A meeting of secretaries of all organizations sponsoring management week, of which the American Institute of Accountants is one, will probably be called in March, 1928, to effect the necessary organization for the coming year. The present national committee, of which Cecil S. Ashdown, representative of the Institute, is chairman, will continue in office until its successor has been appointed.

## Information Desired by Bankers

Character, capital and capacity, the three factors upon which credit is based, are the theme of a letter-bulletin published by the

public-affairs committee of the Indiana Association of Certified Public Accountants, entitled "Information desired by bankers."

The bulletin mentions the change in the procedure of granting credit that has taken place in recent years due to changing conditions of business and the attendant complications. Personal acquaintance of banker and customer is now rare, and consequently the most important factor in granting credit, character, is becoming more and more difficult to judge. The banker must, therefore, exercise even more care in analyzing capital and capacity of the borrower, and eighty-five per cent. of this analysis is based on financial statements and supporting statistics, according to the bulletin. The customer who does not present full financial details in seeking credit is a marked exception in current practice. A balance-sheet statement is a requirement of most bankers and statements of income and expense are also often valuable in determining the credit of a concern. An analysis of surplus should be submitted, showing the amount of earned income credited to surplus, and if an earnings statement is submitted it should be in sufficient detail to enable a banker to determine the operating profits of a business, which a balance-sheet sometimes does not indicate. The budget is becoming an increasingly important factor in seeking credit, the bulletin says, as it permits a fairly accurate estimate of a company's cash requirements for the coming year.

This letter-bulletin is the fourth of a series issued by the committee. The two succeeding studies will be on the subjects of income tax and receivables.

### **Possibilities for Accountancy in Future**

The large undeveloped field awaiting exploitation by the accountancy profession is indicated in a report rendered to the president of the American Institute of Accountants by Theodore H. Sterling, who represented the Institute at the annual convention of the American Mining Congress last December.

The tenor of the various papers at the convention and of the proceedings generally was indicative to Mr. Sterling of progressive tendencies in industry in which he feels

accountants may play an important part. He says in his report:

"The day has long gone by nor will it ever return when the accountant's principal function was considered that of auditing, a check-up of the past, an insurance against fraud, a certification of clerical accuracy. Today it is required that the accountant be familiar with all phases of business that he may fulfil his true function of financial advisor, business counsellor, constructively planning with management both the intimate details and the broader policies called for by the increasing complexity of commerce and industry, the impelling urge of competition and the consequently enforced closer study of such matters as costs, efficiency, markets, taxation, consolidations and the multitude of economic factors that constitute the daily problems to be met and solved by the business world."

In speaking of conventions generally Mr. Sterling says it is possible to gain from them an idea of the progress in methods and processes, the changes in conditions and in mode of thought from year to year and from period to period. Although progress may be slow, he says, and although it may seem hampered by peculiar and difficult problems, it is nevertheless substantial and seems today to be on the brink of far greater developments than any that have taken place in the past. "Surely, if this be true," says Mr. Sterling, "it not only opens still wider to the accountancy profession the door of participation in this programme but also emphasizes the need for fitting its members to become real and vital factors in the up-building of commerce generally." In an attempt to sum up the spirit of the convention in a phrase, Mr. Sterling says that most emphasis was laid on the recognition of study and knowledge as productive factors.

He referred to an address by Gilbert H. Montague, whose theme was that industrial progress and advancement call unceasingly for greater knowledge and that ascertainment of all facts, proper interpretation and trained expert study of them are necessary to a proper understanding and solution of industrial problems. Mr. Sterling says that here, too, the profession of accountancy is called upon to contribute its ability and special training. He enthusiastically approves the tendency of accountants to strengthen their relationships with those responsible for the management and operations of industry. In closing his outline of the convention proceedings, he says:

"Self-regulation by business was referred to on several occasions by different speakers at various

sessions of the convention. Self-regulation calls for self-knowledge, wisdom and honesty of purpose. It is in the first of these requirements that the accountant is called upon for assistance and helpful service. How stupendous the task, how great and real the responsibility, how wide the opportunity perhaps few really realize. Industry is in the throes of development and adjustment. In its struggles upward the accounting profession has its part to play. The lamentable lack of efficiency which marked earlier stages has given place to intensive effort toward higher standards and greater knowledge and proper application and use of that knowledge. But the end is not yet! The goal is not achieved! Rather, we are but at the very beginning of real progress! Ready for this upward march, lined up alongside of industry and business, the profession of accountancy must take its stand. Our profession should be recognized as a symbol of service—loyal, highly trained and perhaps idealistic service. Ours the task to give of the best we have to forward the advancement of knowledge and methods along such lines as will the better enable a sure and solid foundation upon which to build a structure of economic and permanent strength, highly conceived and rightly developed to the end that a commerce may flourish and higher standards and highest ideals prevail."

### Risks in Accountancy Practice

The following analysis of 32 claims against British accounting firms insured for losses arising from professional liability was published in a recent issue of *The Accountant*, London: Oversights by staff, 11; negligence or incompetence, 9; errors in course of liquidations, etc., 4; defects in appointment as receiver or liquidator, 3; information to third party not warranted by facts, 2; clerk in collusion with fraudulent employee, 1; auditor deceived by fraud, 1; insufficient attention drawn to doubtful points in a report, 1. The editorial comment upon this analysis calls attention to the fact that the largest number of claims was due to failure of employees to discharge accurately the routine duties in engagements. It is said that most of the cases were not concerned with matters usually included in an audit programme, and it is concluded that auditing is a relatively safe practice compared with other phases of accountants' activities such as liquidation.

### Accountants Represented at Indiana Tax Conference

The Indiana Association of Certified Public Accountants was represented by Harry Boggs at a tax conference in Indianapolis, December 13th, to which more than thirty state organizations sent representa-

tives. Education in tax methods and legislation to overcome existing inequalities were the principal recommendations of the chairman of the state board of tax commissioners, who addressed the meeting.

### Bad-debt Loss

The average bad-debt loss in seven of the largest types of business in the United States is  $\frac{68}{100}$  of one cent on each dollar of gross business, according to a survey recently made by the department of education and research of the National Association of Credit Men. The seven types of business surveyed over an average period of five years are department stores, dry-goods manufacturers and wholesalers, shoe manufacturers and wholesalers, retail clothing, wholesale drugs, wholesale hardware and wholesale jewelry.

### Classification of Accounts for Printers

A standard classification of accounts of the balance-sheet and operating statement for the printing industry has been prepared by the department of finance and accounting of the United Typothetae of America, and published in pamphlet form, dated 1928.

### Uniform Accounts for Cabs and Busses

A uniform classification of accounts for common carriers of passengers by motor vehicle, prescribed by the public-service commission of Pennsylvania, became effective January 1, 1928.

### Credit Vital in Present-day Economics

"Today the biggest word in the economic language is credit," is a statement by Stephen I. Miller in an article in *Credit Monthly* for February. The article is particularly concerned with international trade, and it points out that twenty-five billions of dollars in credits are extended abroad by the United States. The author says that foreign loans, by stimulating production, enable other nations to increase their commercial activities, with a consequent expansion of their purchasing powers and resultant benefit to our own foreign trade. He advises American business men to study world trade and world needs, in order that the enormous potential market may be properly developed.

## **University Magazine Devotes Issue to Accountancy**

Accountancy is the only subject which receives attention in the December, 1927, *Enterpriser*, a quarterly magazine published by the students of the college of commerce of the University of Illinois. Several articles on subjects such as entering the accountancy profession, the part accountancy plays in business, prevailing tendencies in accountancy organizations and practice, information desired by bankers, and the college man and public accountancy, are supplemented by items concerning accountancy at the university, such as news of clubs and fraternities devoted to accountancy, careers of former accountancy stu-

dents, titles of theses in accountancy which have been submitted for degrees, etc.

## **Governors Recommend Changes in Tax Laws**

The governor of Mississippi, in his first message to the state legislature, recommended among other things that administrative changes in the state income-tax law be made to correspond with the federal law so far as possible.

The governor of Wisconsin in his message to the legislature on January 24th also mentioned the need of amendments to the income-tax law in Wisconsin in order that the administration of the law might be made more practicable.

## **STATE LEGISLATION**

### **Privileged Communication Proposed for Kentucky Accountants**

Certified public accountants of Kentucky will be prohibited from testifying concerning a communication made to them in their professional character by clients or concerning any facts obtained by accountants in their professional character from the books and records of clients, without consent of the clients, if senate bill No. 144 is passed and approved. The bill was introduced on January 20th, and extends to certified public accountants the privileged-communication clause already effective for attorneys and clergymen. The bill was referred to the committee on legal procedure.

### **Massachusetts Accountants Sponsor Tax Bills**

Several bills affecting the tax laws of Massachusetts have been introduced in the legislature at the instance of the Massachusetts Society of Certified Public Accountants. House bills Nos. 715 and 716 propose to extend to corporations and to individual persons and partnerships, respectively, redress in case the supreme court of Massachusetts or the United States supreme court hands down within a period of five years a decision in a case similar to that of the particular taxpayer concerned. These bills are restricted by a provision

that the point in question must have been specified in a regular claim for abatement filed in regular course, and still further that within a reasonable period after the original application has been rejected by the commissioner, a notice of intent to protect the rights of the taxpayer, requiring a filing fee, shall be given.

House bills numbered 724, 725 and 726, also sponsored by the society, were introduced last year under numbers 505, 507 and 510, respectively. They seek to establish a state board of tax appeals constituted of independent, specially qualified members; to discontinue the calculation of minimum corporation taxes on the basis of gross receipts, and to obviate an alleged existing inequality caused by the present statutory definition of net income.

### **Restrictive Accountancy Bill Introduced in New York**

A restrictive accountancy bill, house bill No. 547, similar generally to the Gedney-Sheridan bill proposed last year, was introduced in the New York legislature January 25th. It provides for the issuance of C. P. A. certificates by waiver to accountants who have been in public practice for a period of ten years prior to the enactment of the law and to others in special circumstances. Temporary certificates valid for

ten years would be issued under the bill to bona-fide public accountants in practice at the time of its passage.

No person not licensed under the provisions of the bill would be permitted to practise public accounting in New York after its enactment. The bill has been referred to the ways and means committee of the assembly.

### **Bill for Uniform Municipal Accounting in Rhode Island**

Senate bill No. 20, embodying a resolution that the bank commissioner of Rhode Island investigate and audit accounts of city and town treasurers and tax collectors, in order that the desirability of a law providing for uniform accounting methods in cities and towns may be determined, has been introduced in the Rhode Island legislature and referred to the committee on judiciary.

### **Licence Tax on Professions in South Carolina**

Persons, firms or corporations engaged in trades or professions not involving the handling or sale of tangible property, but whose sole income is derived from fees and commissions would be required to pay a periodical licence fee of one-half per cent. of gross receipts in fees or commissions under house bill No. 598, now before the legislature of South Carolina.

### **Bills Affecting Accountancy Board in Virginia**

A bill to amend the existing law concerning the state board of accountancy has been introduced in the assembly of Virginia and given a temporary number, 79.

Senate bill No. 32 in Virginia amends the act preventing and punishing fraud in procuring a certificate from a state board governing the practice of a profession.

## **STATE BOARDS OF ACCOUNTANCY**

### **Two Iowa Candidates Pass C. P. A. Examinations**

E. A. Bertholf and C. A. Williams were the only successful candidates at the C. P. A. examinations conducted by the Iowa state board of accountancy November 17 and 18, 1927. Ten candidates attempted the examinations.

### **Results of Maryland C. P. A. Examinations**

It has been announced by J. Wallace Bryan, secretary of the Maryland state board of examiners of public accountants, that 27 candidates for C. P. A. certificates passed the examinations held November 28 to 30, 1927. Eighty-seven candidates attempted the examinations. The names of the successful candidates are: Bernard Ades, Boris Baievsky, John Hotchkins Bickley, Wallace Edward Brimer, Sewell Reeves Creel, Carroll Franklin Davis, Morris Fedder, Richard Fuller Going, Burton McKinley Irving, James Howard Jones, Benjamin L. Landsberg, Arthur Justus Linn, Aaron V. Little, James Patrick Mc-

Nulty, Arthur Lee Perry, Howard Broadus Reamy, Elmer Horace Rittage, Walter Schrell Ritter, Theodore Edward Rupp, Paul Alfred Schaffner, Louis Cavano Schulte, Albert Emmanuel Smith, Harvey Sylvester, Chas. A. Trageser, Herbert Evans White, Maurice Aaron Wilner and John Thomas Woods, Jr.

### **Eleven Pass Missouri C. P. A. Examinations**

The following candidates passed the examinations held by the Missouri state board of accountancy in November, 1927: Harry J. Cochran, Benjamin L. Enloe, Harold C. Fechner, Chauncey C. Flagg, G. L. Gregory, A. J. Hoffman, George W. McCoy, A. H. Schettler, Reginald W. Smith, Milton M. Stanze and A. C. Vance.

### **Reappointments to South Carolina Board**

The governor of South Carolina has reappointed George E. Olson and L. L. Wilkinson as members of the state board of accountancy.

## NEWS OF LOCAL SOCIETIES

### **Connecticut Society of Certified Public Accountants**

A special meeting of the Connecticut Society of Certified Public Accountants was held Wednesday, January 25, 1928, at the City club, Hartford. The discussion at the meeting, on "Publicity," was led by Leon Vannais and Louis Perlysky.

### **Illinois Society of Certified Public Accountants**

A monthly meeting of the Illinois Society of Certified Public Accountants was held January 18th at the City club, Chicago. G. B. Waterstraet spoke on "Valuation and procedure in appraisals." His address was followed by a discussion in which Harvey C. Daines, C. R. Rorem, Harold Benington and W. S. Bemis participated.

Gold and silver medals were awarded to Abraham Silvertrust and Charles F. McGarry for their records in the 1927 examinations of the state.

### **Minnesota Society of Certified Public Accountants**

A meeting of the Minnesota Society of Certified Public Accountants was held at Minneapolis, January 17th. Paul W. Pinkerton spoke on "The accountant's task," and following his address there was general discussion on the work of public accountants.

### **Pennsylvania Institute of Certified Public Accountants**

#### **PITTSBURGH CHAPTER**

Successful candidates at the last Pennsylvania C. P. A. examinations were guests of the Pittsburgh chapter of the Pennsylvania Institute of Certified Public Accountants on

January 26th, at a meeting at the Hotel Henry.

M. D. Bachrach gave the address of welcome to the guests. The principal speaker of the evening was John G. Buchanan, attorney, who spoke on income-tax changes in the proposed 1928 revenue act.

### **Regional Division of Texas Society**

The Texas Society of Certified Public Accountants has planned a division of the state into five regions, with the purpose of strengthening the unity of the accountancy profession in Texas and facilitating the exchange of ideas and opinions among the members of the society. The difficulty of obtaining a representative attendance at the meetings of the society itself is given as one reason for the action.

In each of the districts into which the state is to be divided there will be appointed an aide to act as liaison officer between the members in his region and the executive officers of the society. Each aide will be a personal representative of the president of the society. The regional districts will be expected to arrange meetings of accountants for the discussion and study of accounting subjects. Resolutions adopted at district meetings will be transmitted to the state convention, so that each member of the society in the state will be enabled to have a voice in the conduct of its affairs.

#### **DALLAS ACCOUNTANTS' ASSOCIATION**

The second monthly meeting of the Dallas accountants was held January 19th. A paper on "Analysis and certification of the balance-sheet" was read by J. Stuart Arthur.

## REVIEWS

### **C. O. WELLINGTON—"ACCOUNTANTS' RESPONSIBILITY FOR INVENTORIES"**

Address delivered before the New England chapter of the Robert Morris Associates and published in the Robert Morris Associates Bulletin for December, 1927.

A recent report of the Robert Morris Associates committee on coöperation with public accountants contained a statement favoring increased responsibility on the part of accountants concerning the item of inventories. The speaker said that there is a regrettable lack of uniformity of opinion in the accountancy profession on this subject. Before attempting to analyze the situation, he suggested

consideration of the conditions as they affect public accountants and bankers. Mr. Wellington said that in the average manufacturing or trading concern the inventory represents more than half of the total current assets and that any attempt to disguise the true condition of a company is more likely to be successful if accomplished by distortion of inventory than in any other way. The speaker said he knew of some bank credit men who agreed to lend only on the basis of cash and receivables, ignoring inventories as current assets for purposes of credit. Although this is probably an exaggeration, the speaker said, it is reasonable that a banker should wish some definite verification of inventory other than the word of a responsible officer of the company itself. It was Mr. Wellington's belief

that the banker is justified in expecting the public accountant to give an opinion on the inventories as on other current assets. He said that three general relationships may exist between an auditor and his client with regard to inventories; first, where the inventory is determined by the client and used without verification; second, where the inventory is taken and priced by the client but tested by the auditor; and third, where the inventory is taken or supervised by the auditor. In the first case the accountant has no responsibility, in the second he has limited responsibility and in the third he is fully responsible.

In special types of engagement the auditor must use the inventory as determined by the client without any further verification, the speaker said, and in this case his only recourse is to qualify his certificate so as to indicate unmistakably that his determination of the true financial condition is limited by acceptance of the client's inventory figure.

In other circumstances the inventory is counted, priced, extended and footed by the client but is later subjected to certain tests by the auditor, and the speaker gave several illustrations of the scope and type of such tests. In general, he said, the theory is that the auditor shall perform sufficient tests to satisfy himself of the substantial accuracy of the inventory. In such a case his responsibility is limited only by his acceptance of the quantities certified to him by the client. This question of quantity is, of course, a serious factor and the speaker cited instances of fraud based on over-statement of inventory not revealed by the auditors.

The speaker disagreed with the hypothesis that an auditor is not really competent to take or supervise an inventory directly. He outlined the actual steps necessary in taking an inventory and gave it as his opinion that the auditor is quite capable of participating directly in pre-inventory work and in the count of inventory items. He pointed out that some auditors naturally are better qualified to deal successfully with problems of constructive accounting, such as the arrangement for procedure of inventory taking, than others, but he refused to believe that any general restriction exists on the capacity of professional accountants which would prevent them from accepting this responsibility.

The speaker said that as a rule an auditor's verification of quantities consists of making an adequate number of tests to satisfy himself as to the substantial accuracy of the client's counting. He said it is no more necessary for the auditor to count every item than it is for him to check each posting and footing in the books of account. Test openings of containers, test drillings in raw-material piles, applications of formulae for transforming cubical contents into weights and counting the number of items in a standard space, were mentioned as means of expression of the auditor's ability. Attention was directed to the fact that the records of a client were often of great value in verifying inventory quantities. The count of many raw materials may be supplemented by rigid lot records, and continuous inventory records are often an important factor in determination of the accuracy of the physical inventory as a whole. Mr. Wellington said that he believed accountants could accept the entire responsibility of inventory and give an unqualified certificate, which is of maximum worth,

without supplementing their regular staffs to any great extent.

In mentioning the difficulties often encountered in checking unsalable stock where there might be danger of excessive valuation because of depreciation or obsolescence, Mr. Wellington said that from the accountant's general business knowledge and his acquaintance with his client's operations, market and turnover he should be able to reach a definite conclusion on what goods need low valuations because of unsalability.

The speaker outlined the procedure in taking inventories in several different industries as illustrations of the subjects he was discussing.

He said that from his own experience it seemed that the addition of inventory verification to the functions of the auditor would not add unreasonably to the cost of the accountant's services.

Mr. Wellington said he believed there was a growing willingness among accountants to accept the responsibility of inventory verification but that the support of the bankers was necessary if clients generally are to be persuaded to undergo the additional expense necessary if this function is to be included in the auditor's procedure. If the bank credit men would give a substantially higher value to an auditor's certificate which indicates full responsibility for inventory, there would, in the speaker's opinion, be a gratifying increase in the number of thoroughgoing engagements performed.

#### MICHAEL H. SIGAFOOS—"THE RELATIONSHIP AND VALUE OF THE ACCOUNTANT TO BUSINESS"

Address delivered at a meeting of the Lansdale Rotary club, Lansdale, Pennsylvania, January 17, 1928.

The speaker said that perhaps the matter of greatest moment in business is the attitude of the business world today towards the future, with particular concern for the wise purchase of materials or investments. Despite a promising business outlook, he said, prudence and watchfulness should not be relaxed. The current political and economic conditions, which are closely related, he described as intense and he suggested careful planning, analysis and study as the modern way of dealing with difficult conditions. Business today, he said, is a near science and the business man must fortify himself accordingly. According to the speaker, the man who devotes liberal time to the study of his business, whether by graphic charts or other intimate statistics properly compiled, is just as sane and provident as the sailor who provides himself with charts and compass before starting on a long voyage.

The speaker said that system is a vital part of any business. Business men, he said, now realize the importance of modernizing accounting methods of manufacture and intelligently relating therewith a system of cost that will bring the actual details of plant operations to the surface and show the real cost of production and net profits of sale. In this way the most profitable products of manufacture may be identified.

The speaker also said that in present-day conditions the factor of time has a definite value and should be accounted for as accurately as materials.



A system of accounts must be constructed to fit a business since the business can not be made to fit the system, the speaker said. He referred to accounts receivable and slow credits as items of particular importance.

The balance-sheet should provide information to the executive which may be applied to constructive administration. The speaker said that in any business the outstanding features are the amount of capital invested, the field or territory served and the turnover of invested capital or liquid assets in the year. Overhead, he said, is one of the greatest problems confronting all business. Competition is now keener than at any time in the history of commerce. The modern executive must have an accurate conception of the state of operations of his business and the balance-sheet is an indispensable aid to him in this way.

A cost system is necessary if the best results are to be obtained from manufacture, the speaker said, and few business men today know in detail the costs concerned in operating the several departments of their plants. A cost system does not merely determine the costs of operating plants and the total of expenditures of a business in its entirety, but distributes the total expenses proportionately and equitably over finished production, which means that a standard cost may be established to reflect the efficiency or inefficiency of the factory. Still more valuable is the cost system in determining whether or not the sales revenue returns the whole cost and a reasonable profit and whether profits are high or low individually or collectively. With this information at hand, the manufacturer may discriminate among the various classes of goods manufactured and concentrate his efforts on the one which is most profitable.

In summarizing the functions of the accountant in a manufacturing plant, the speaker said that accountants improve methods by analyzing conditions, devising forms, installing systems proven by practical tests and preparing therefrom statements and charts which interpret conditions for the management and suggest remedies for the correction of faults.

#### **CADDIE H. KINARD—"INSTALMENT-SALES-PROFIT COMPUTATION"**

Address delivered at a meeting of the Retail Credit Men's Association at El Dorado, Arkansas.

The speaker referred to the rapid growth in importance of the deferred-payment plan as a means of purchasing commodities. He said that the plan apparently is firmly established in this country. In many cases, in his opinion, the plan leads to extravagance and to indulgence in unnecessary and even undesirable expense but its advantages on the whole seemed to him to outweigh the disadvantages.

At a meeting of the New York Credit Men's Association held at the Hotel Commodore on January 16th, Joseph J. Klein, New York, spoke on "What shall we look for in the financial statements which come to our desks?"

He suggested that if proper regulation of deferred-payment purchasing as a whole could be obtained, the method might be looked upon with more favor.

The speaker said that in the immediate vicinity of El Dorado most of the instalment business is conducted in real estate, retail furniture, musical instruments and automobile sales. The instalment plan has made it possible for salaried workers to obtain commodities that would formerly have been beyond their reach.

The speaker outlined the following four ways in which the dealer might protect himself in cases of default where personal property is sold on the deferred-payment plan: (1) By an agreement that the title is to remain in the seller until the purchaser has fully performed his part of the contract; (2) by a form of contract in which title is conveyed to the purchaser immediately, but is subject to a lien for the unpaid portion of the purchase price; (3) by a present transfer of title to the purchaser, who at the same time executes a reconveyance in the form of a chattel mortgage to the seller; or (4) by conveyance to a trustee pending performance of the contract and subject to its provisions.

He said that articles sold on instalments frequently have to be repossessed and in such conditions profits can not be considered realized until the completion of the purchaser's payments. Sound accounting demands, therefore, that provision be made for this contingency, which has important bearing upon statements of financial condition and on the preparation of income-tax returns. Every cash collection made on an instalment contract represents two items, viz.: a return of investment and a realization in the way of profit. In preparing accurate statements of account the two must be segregated, and such segregation demands an adequate system of accounting. The speaker illustrated what system would be required in such a case by giving a hypothetical instance. He also gave a formula for the computation of profit on instalment sales.

If for any reason the purchaser defaults in any payment and the seller repossesses the property, the entire amount received on instalment payments is retained by the seller, minus the profit previously included as income, and the remainder will be income of the seller for the year in which the property is repossessed. The same property repossessed must be included in the inventory sale at its original cost less a conservative allowance for damages and depreciation. The speaker illustrated this principle in terms of the hypothetical case which he had already used. He said that only the portion of profit contained in each cash collection should be considered realized. The income tax is computed on the actual earnings, as shown by this conservative accounting method. If repossession were necessary in any case the profits would then not have been previously inflated, and the seller would be protected from unjust taxation.

Gerald M. Conkling, Topeka, Kansas, has been elected treasurer of the university club of Topeka.

Luther K. Watkins is conducting a course of ten lectures and discussions on income taxes at the University of Buffalo.

**HERE AND THERE**

Jay E. Bigham & Co., Citizens Bank building, Tampa, Florida, announce that Elliott G. Austin has been admitted to partnership in the firm.

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The copartnership of Leon Brummer & Becker, 171 Madison avenue, New York, has been dissolved. Mr. Brummer will continue the practice of the copartnership and Mr. Becker will commence separate practice.

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Byrnes & Baker, 76 William street, New York, announce the admission of Samuel P. Cooper to partnership in the firm.

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Morris W. Goldberg and Charles Jacobson announce the consolidation of their organizations and the continuance of their practice under the firm name of Goldberg, Jacobson & Co., 1501 Broadway, New York.

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Alexander Grant & Co., Chicago, announce the opening of an office at 150 William street, New York, under the management of Iver R. Johnson, resident partner.

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Victor Heydendahl announces that he has entered into partnership with Lawrence E. Brown for the practice of public accounting, at 430 Commercial and Savings Bank building, Stockton, California.

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George N. Janis announces the removal of his office to 11 West 42nd street, New York.

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Karasick & Reznikoff and Nathan M. Gallin announce that they have consolidated their practices under the firm name of Karasick, Reznikoff & Gallin, with offices at 104 West 42nd street, New York.

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Joseph P. Kelly announces the formation of the firm of Gove, Elliott & Kelly, with offices at 40 Court street, Boston.

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Main & Co., 149 Broadway, New York, announce the opening of an office at Tulsa, Oklahoma.

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Meaden & Welsh, Hall building, St. Petersburg, Florida, announce that Vincent J. Murphy has been admitted as a member of the firm.

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Patterson & Ridgway, 74 Trinity Place, New York, announce that Robert N. Phinney has retired from the partnership and that the remaining partners will continue the practice with no change in the firm name or address. The retiring partner of the firm will continue the practice of accountancy on his own account at 30 Church street, New York.

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Price, Waterhouse & Co. announce the removal of their Portland, Oregon, offices to the Public Service building.

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Oscar W. Schleeter has retired from the firm of Schleeter & Powers and has opened an office for practice on his own account at 37 Broad street, Charleston, South Carolina.

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George B. Simpson, L. R. Chenault and M. S. Carneiro of Brownsville and San Antonio, Texas, announce their association under the name of Simpson-Chenault-Carneiro & Co., succeeding Simpson-Chenault Co.

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A. L. Tinsley, Baltimore, Maryland, announces the removal of his office to the Keyser building.

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John H. Vérkouteren announces the opening of an office at 712 Southern building, Washington, D. C.

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Ernest A. Roden, Ohio, has been appointed a member of the committee on calendar reform of the Chamber of Commerce of the United States.

# BULLETIN

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## Institute Examinations

The next examinations of the American Institute of Accountants will be held May 17 and 18, 1928. Applications should be submitted at least sixty days before the examinations in order that the board of examiners may have ample time to give them proper consideration. The examinations will be held at New York and at other cities to suit the convenience of applicants.

## Thirtieth Library Bulletin Published

The thirtieth of the series of special bulletins issued by the library of the American Institute of Accountants has just been published. Copies are being sent to members and associates with this *Bulletin*. Additional copies are available at a price of 10 cents each.

The library bulletin contains questions and answers obtained by the bureau of information. The subjects treated in the current issue are auditing for gas and water-works companies, joint fees, valuation of a licensed abstractor's business, repurchase agreements, partnership withdrawals, promotion expenses, cost of sales for restaurants, state franchise tax on business corporations, taxation of corporation shares, valuation of goodwill and participation mortgage bonds.

## No Decrease in Volume of Legislation

According to a report of the Institute's legislative-service company, about a thousand more bills have been introduced in state legislatures meeting this year than had been proposed at the same time in 1926, when a

corresponding number of legislatures was in session.

Accountancy, apparently, is not a subject neglected by the legislators. Ten states are in regular session this year, and in five of them bills directly affecting public accountants have been introduced up to this time. These bills are described elsewhere in this issue of the *Bulletin*.

One or two states, distressed at the increased flood of bills introduced, have changed from annual to biennial sessions, but in each case where the innovation has been attempted recently the result has been a special session in the idle year.

Attention has been called to the fact that many of the bills introduced are merely repeals of old laws, or amendments to remedy faults in existing laws. Each such repeal or amendment, of course, is counted as a separate bill.

## Accountant Appointed Receiver

J. G. Gillingham of Portland, Oregon, has been appointed temporary receiver for a brokerage firm in Oregon which filed a voluntary petition in bankruptcy recently. It is said that this is the first time that a public accountant has received such an appointment in Oregon. Mr. Gillingham is a member of the American Institute of Accountants and a certified public accountant.

## Accountants Hear of Federal Government Economies

Reduction in the number of federal job-holders is one effective way to reduce government expenses, according to an address by

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Brigadier-general Herbert M. Lord, director of the federal budget, at a meeting of the New York State Society of Certified Public Accountants, February 21st. General Lord said that each federal department had been requested to eliminate two per cent. of its staff annually and that \$21,723,436 in salaries had been saved in one year by this procedure. The efficiency of the work did not suffer, he said. Payments out of savings which the government has effected have reduced interest on the national debt by approximately \$24,000,000, and reductions in the national debt are helpful in reducing taxes. He referred to a number of small economies in governmental administration which in the aggregate have been responsible for a considerable saving. The bureau of the budget of the United States consists of a staff of thirty-seven men and women, including messengers, and they have been principally responsible for the economies that have been accomplished.

### **Banker Compliments Accountants**

The importance to the banker of the services of accountants was emphasized by Elmer G. Parsly of the firm of Parsly Brothers, investment bankers, at a meeting of the Philadelphia chapter of the Pennsylvania Institute of Certified Public Accountants, February 14th. The subject of his address was "The problems which confront an investment banker in the financing of an enterprise and the relation of an accountant to such problems." He said that a banker is dependent upon the accountant for verification that the current assets as stated are truly assets and that all the liabilities, including contingent liabilities, are shown. He also said that it must be learned from the accountant whether or not the earnings statements are in proper form and reveal the real earning power of the corporation. Proper maintenance and depreciation charges based on the recommendations of engineers and proper provision for taxes are also matters which the accountant must investigate for the banker.

Frank J. Gorman, a member of the Pennsylvania securities commission, spoke on the relationship of the accountant to the securities commission and the effect of the blue-sky laws of Pennsylvania on the

accountant making reports for the flotation of new stock issues. The securities law has saved hundreds of millions of dollars for the people of Pennsylvania, Mr. Gorman said. It is a preventive law in that it compels disclosure of the plan of business, the reputation and financial standing of applicants. It is probable, the speaker said, that many fraudulent stocks are being sold in Pennsylvania and in other states through the mails and by telephone, and investors would save additional millions if they would confer with their bankers to ascertain the authority of dealers and the soundness of the issues they offer. The evidences of deceit before the commission, said the speaker, include such items as gross exaggeration of real-estate values and inclusion of investment stocks at par value in the balance-sheet when they have no actual value. The securities commission calls upon certified public accountants to prepare data correctly, and Mr. Gorman said that more than one application has been withdrawn when the commission required an audit by certified public accountants. He said that the investor should ascertain that corporation records have been properly audited before investing in an unfamiliar enterprise.

The accountants present considered the subjects of both speeches of great importance to the profession, since the investment banker, the securities commission and the certified public accountant are all working coöperatively to protect the public from issues of unsound securities.

### **Income Tax**

"Income tax" is the subject of the fifth of a series of six letter-bulletins published by the public-affairs committee of the Indiana Association of Certified Public Accountants. The introductory paragraph refers to the work of tax revision at present pending in congress and mentions the growth in importance of income taxes themselves and income-tax legislation since the sixteenth amendment was adopted in 1913. Some taxpayers in 1919 paid more than two-thirds of their net income into the federal treasury, it is said. The reduction of rates is due largely to efficient budgeting of governmental expenditures and to the ability of the treasury officers, says the bulletin. The possible

reduction of rates for corporations from thirteen and one-half per cent. to perhaps eleven per cent. is mentioned as the matter of principal interest in the amendments proposed at the present time. The bulletin calls attention to one advantage to taxpayers coming from the operation of the income-tax laws, that is, the necessity for an accurate knowledge of revenue and expense, assets and liabilities, etc., which comparatively few business men had prior to the inception of income taxation. Accounting methods and procedure, the bulletin says, have supplied this knowledge.

### **C. P. A. Title Created in Cuba**

The title of "contador publico autorizado" (authorized public accountant) is to be conferred on students who successfully complete a three-year course, including specified subjects, in the higher school of commerce established at the University of Havana by decree of President Machado, issued March 2, 1927.

Thirty-five students are at present registered in the course, which is in the middle of its first year.

The dean of the higher school of commerce, Miguel E. Sanchez, has intimated that within the next few years a Cuban Institute of Accountants may be organized as a result of the new curriculum.

### **Double-taxation Relief**

A pamphlet describing the movement to facilitate double-taxation relief, a subject of international interest, has been published by the bureau of foreign and domestic commerce of the United States department of commerce. It contains a foreword by Julius Klein, director of the bureau, and an introduction by Thomas S. Adams, member of the committee of experts. Mr. Adams calls attention to the importance to taxpayers of the United States of elimination of international double taxation and fiscal evasion. The movement to abrogate these evils has been sponsored by the League of Nations and a number of conventions have been concluded between European states to accomplish the purpose. Dr. Adams says that unless the United States can participate effectively in the movement business concerns of America, particularly exporters, may be forced in a few years to compete

with foreign rivals who are relieved of the substantial burden of double taxation to which our citizens are subject.

In the pamphlet, which has been written in an attempt to epitomize the present situation, the progress of attempts at double-taxation relief is traced briefly. Legislative measures, early treaties and post-bellum treaties on the subject are described and the bilateral convention, a form of agreement generally adopted, is discussed. Draft conventions on double income tax and double inheritance tax are reproduced in the appendix.

### **Uniform Accounting for Contractors**

It has been announced that a uniform accounting system for contractors, adaptable to the needs of public-works contractors and building contractors and to the requirements of highway builders, has been composed by the Cincinnati chapter of the Associated General Contractors of America.

The system provides for standard book-keeping, cost analysis and for financial and statistical reports. A manual of instruction fully describing the system is available for distribution at the headquarters of the Association, according to the announcement.

### **Standardized Cost Finding for Broad-silk Manufacturers**

The cost-calculation committee of the broad-silk manufacturers division of the Silk Association of America will issue a cost-accounting manual within the next few months, according to a recent announcement. Preliminary research work, classifications and definitions of terms have already been completed and the actual composition of the manual is about to commence.

The idle-time factor has been specifically mentioned as an item to be treated in the manual. Idle time is usually considered a factor in increasing manufacturing costs. In the manual it will be provided for in profit and loss and eliminated from the true cost of the product.

The manual will describe proper allocation of accounts, so that both small and large manufacturers may account for all overhead expenses. Such items as price shrinkage arising from sampling, close-outs and deterioration over a period of time will be discussed.

Comparison between standard and actual costs will be made, by which the manufacturer may discover variations in the cost of his own product. Charts and tables will be incorporated in the manual to illustrate the text.

A cost-accounting manual for silk throwsters was published recently by the throwsters division of the Silk Association.

### **Accounting Requirements of a Small Hatchery**

A uniform system of accounts for chick hatcheries is being prepared by the bureau of business research of Ohio State University. The complete manual, it has been announced, will be available before the end of 1928, and a preliminary bulletin outlining the system in a general way has already been circulated among members of the Ohio Poultry Improvement Association. The preliminary bulletin contains an account classification which provides for a rough division of production costs from those of selling and administration. Illustrative statements based upon this account classification are given. Three journal forms for the summarization of income, cash receipts and cash disbursements are also presented. The procedure to be followed in installing the system and the routine of handling daily record-keeping work are briefly outlined.

### **Accountancy Course for Women**

Courses in accountancy are part of a new night-school commercial curriculum for women offered by Hunter College, New York.

### **Innovation in Accountancy Tests**

The "true-false" type of quiz for students has been introduced at the school of accountancy of St. Johns College, Brooklyn, New York. In this type of examination concise statements are presented to the student who answers "true" or "false" to each. The advantages are considered to be that a wider range of subjects may be covered and an opportunity may be given the examinee to analyze definite situations. Questions requiring exposition, which permit the expression of constructive ideas, and problems calling for a knowledge of actual practice procedure may be given in conjunction with such a quiz.

### **University Offers Home-study Course in Accounting**

Accounting is one of the subjects in which Columbia University is offering home-study courses, according to a recent announcement.

### **Accountancy Students Hear of Proposed Judicial Reform**

Judge Richard W. Martin was the principal speaker at the annual banquet of the Pittsburgh School of Accountancy held February 18th. Judge Martin discussed proposed improvements in the administration of justice in criminal courts and he said, among other things, that the constitutional provision protecting an accused person against self-incrimination might well be modified to the extent that judges and prosecuting attorneys could comment upon the failure of the defendant to take the witness stand in his own behalf. Judge Martin also stated his belief that conviction on a vote of ten to two might safely be applied to minor cases. He made it clear, however, that both proposed changes would require constitutional amendment which would necessitate extended preliminary effort.

### **Accountants Warn Against Overbuilding in Hotel Industry**

The danger of overexpansion in the construction of new hotels was emphasized by hotel proprietors, managers and accountants, at a dinner given by Edward C. Fogg at the Roosevelt hotel, New York, February 20th, in honor of the Hotel Accountants Association. All the speakers praised the work of the association in its constructive efforts to improve the scientific management of hotels.

Mr. Fogg, in welcoming the accountants as his guests, spoke warmly of their services in the interests of scientific operation. He emphasized the necessity for accurate accounting, especially because of the competition in the hotel industry which has developed in recent years. He assured the association of his coöperation and predicted a bright future for it.

Richard H. Browne, past president of the Hotel Accountants Association, responded to the welcome in behalf of its members. Efforts to standardize hotel accounting and

to facilitate the exchange of useful information, Mr. Browne said, are important attempts to combat the menace of abnormal competition. He said that in his opinion the saturation point in hotel construction would soon be reached at the present rate.

W. Johnson Quinn, of the St. James hotel, who was introduced as the dean of the hotel industry, stressed the value of comparative reports of operating results on percentage bases, which might be exchanged among hotel executives. He suggested the appointment of an education committee of the Hotel Accountants Association to explain to individual proprietors the advantages of such comparative statements.

Food costs are the stumbling block to profitable hotel operation, according to the remarks made by John McF. Howie, of the White Hotels. He said that every hotel executive should have an accurate knowledge of the market, preparation, service, history and philosophy of food. He called the auditors the eyes of the business, and emphasized and illustrated the use of percentages in exercising adequate control of operations.

W. J. Forster outlined the technical discussions planned by the association for the coming year, and C. W. Kramer of the Pennsylvania hotel gave a technical address on budgeting. Other speakers were Kenneth D. McAlpin of the *National Hotel Review*, and W. W. Wyckoff, secretary of the Hotel Association, both of whom praised the aid rendered by the hotel accountants in solving the vital problems of the industry.

Thomas E. Ross, president of the Hotel Accountants Association, acted as toastmaster.

### **Hotel Accountants Meet**

The twelfth annual meeting of the Hotel Accountants Association was held at New York, January 20th. After preliminary business a technical discussion took place on the subjects of room-revenue control and control of cash from restaurant departments. W. M. Sullivan, Louis A. Bruty, C. B. Stoner, R. Schickler and Charles G. Stamm participated in the discussion.

The Philadelphia Hotel Accountants Association held its first monthly meeting of the year on February 14th. The officers were presented with testimonial gifts in

recognition of their services during the first year of the association's existence. A. T. Keyser made the speech of presentation. The officers honored were Henry Vas Dias, president; R. Rudolph, vice-president; T. F. McCarthy, secretary; and George Hoeftmann, treasurer.

### **Cost of Audit Services Not Selling Expense**

The cost of audit services, among other expenses, was disallowed as selling expense in an action to recover taxes under section 234(a) of the act of 1918 and article 264 of the commissioner's regulation 45. The text of the court's decision is as follows:

U. S. DISTRICT COURT, MIDDLE DISTRICT OF TENNESSEE  
*The Taylor Hughes Company, Inc. versus United States of America.*

Decided January 28, 1928

This is an action by plaintiff to recover taxes and interest averred to have been erroneously paid to the defendant in the form of income and excess-profits tax for 1918. Section 234(a) of said act provides that a taxpayer may have an abatement if he has sustained a substantial loss resulting from any material reduction (not due to temporary fluctuation) of the value of the inventory for the taxable year of 1918, etc. And, that at the time of filing his return for the taxable year of 1918, he may file a claim for said abatement; and by section (b) of said act, it is provided that if such claim is filed, and it is shown to the satisfaction of the commissioner that during the taxable year 1919 the taxpayer sustained substantial loss as described in section (a) "then the amount of such loss shall be deductible from the net income of the taxable year of 1918, and the taxes imposed by this title, and by title 111 for such year, shall be determined accordingly. Any amount found to be due to the taxpayer upon the basis of such deduction shall be refunded to the taxpayer according to the provisions of section 252."

Section 1309, of the revenue act of 1918, gives the commissioner of internal revenue authority to make such rules and regulations as are necessary for the enforcement of the provisions of the revenue act of 1918.

Pursuant to said authority, the commissioner of internal revenue, with approval of the secretary of the treasury, promulgated regulation 45, and article 264 thereof fixes the method whereby the amount of deduction from the net income tax to which the taxpayer was entitled by reason of a loss, must be arrived at. The language of article 264 is as follows:

"Loss where goods have been sold.—Where goods included in the inventory at the end of the taxable year 1918 have been sold during the succeeding taxable year, the loss which may be deducted from net income for the taxable year 1918 is the amount by which the value at which the goods sold were included in the inventory exceeds the actual selling price minus a reasonable allowance for selling expenses and for manufacturing expenses, if any,

incurred in the taxable year 1919 and attributable to such goods."

It is admitted by both parties to this litigation that the commissioner of internal revenue had the authority to make and promulgate said article.

No proof was taken, and the facts were agreed to by stipulation, in which it is agreed, among other things, that plaintiff filed its income and excess-profits-tax return, showing a tax of \$11,273.09, together with interest in the sum of \$16.23, to be due for the year of 1918; that at the time it filed its return, it also filed a claim for the abatement in the sum of \$3,509; that said claim for abatement was in accordance with section 214(a) of the revenue act of 1918, upon the ground that a substantial loss from a material reduction of the value of its 1918 inventory had been sustained; that on October 26, 1920, its claim for abatement was denied by the commissioner of internal revenue, and the full amount of the tax and interest was paid; that on or about December 8, 1923, plaintiff filed a claim for refund in the sum of \$2,253.39; \$1,734.52 of which was tax, and \$519.07 of which was interest. Said claim for refund was based upon the ground that a claim for deduction of the loss resulting from a material reduction of the value of its inventory for the year 1919 had been erroneously disallowed by the commissioner. In said claim for refund the plaintiff claimed certain items as "selling expenses," of the 1918 inventory, which items of expense were paid in 1919, which said claim for selling expense amounted to \$3,010.46.

On May 1, 1924, the commissioner of internal revenue allowed said claim as a refund in the sum of \$245.65 and a tentative rejection of the sum of \$2,007.94, giving the plaintiff thirty days in which to file a protest to said rejection. A protest was filed, a conference held, the claim reconsidered, and finally rejected on December 8, 1924, for \$2,007.94. On May 7, 1925, defendant, through the collector of internal revenue at Nashville, tendered plaintiff a cheque for \$308.69, which consisted of a refund of taxes erroneously paid in the sum of \$245.66, and interest thereon in the sum of \$63.04, which cheque was refused by plaintiff.

The commissioner of internal revenue disallowed the following items as expenses attributable to the selling of 1918 inventory:

General expenses, consisting of:	\$914.38
Auditing expenses	\$280.00
Legal expenses and attorneys' fees	251.65
Storage expenses	3.00
Tennessee corporation tax	5.00
Miscellaneous petty cash items	105.73
as well as the following items:	
Insurance—fire	\$142.74
Interest	1,199.60
Licences and taxes	108.00
Office rent	216.00
Salaries	10,821.49
Depreciation	100.00

Calculating the proper selling expenses attributable to the selling of the 1918 inventory as being \$1,203.57.

Plaintiff insists that the selling expense attributable to selling the 1918 inventory is \$3,010.46,

instead of \$1,203.57, as contended by the commissioner of internal revenue.

The last paragraph of the stipulation states the contention of the plaintiff and defendant as follows:

"If the amount of \$3,010.46 is taken as the proper selling expense of the 1918 inventory, the correct 1918 tax is \$9,813.81; if the amount of \$1,203.57 is taken as the proper expense, the correct 1918 tax is \$1,302.68."

Plaintiff was engaged in the business of "Commission merchants and textile mill agents," during the years of 1918, 1919, and until sometime in the year of 1921, when it surrendered its charter and ceased to do the business of buying and selling, but continued to exist to collect its debts and close up the affairs of the corporation. The inventory showed that plaintiff had at the end of the year 1918, from twenty-two to twenty-five thousand dollars worth of goods; that it sold during the year of 1919 some two hundred thousand dollars worth of goods.

If the question of the ruling of the commissioner of internal revenue is open for review, I am then called upon to say whether or not the above items disallowed by the commissioner of internal revenue are expenses incidental to the selling of the 1918 inventory, or whether they are items incidental to administrative expenses of the business.

Not being an auditor, or bookkeeper, and never having had any experience with a big mercantile business, I must acknowledge my limitations to pass upon the question as to whether or not such expenses should be chargeable to "selling expense," or to "administrative expenses."

It is possible that this fact could have been made clear by proof, but no proof is in the record, so my judgment must necessarily be based upon the impressions I have of the character of such expenses. It seems clear to my mind that the items of auditing expenses, legal expense and attorney fees, storage expense, Tennessee corporation taxes and miscellaneous petty cash items, aggregating \$914.34, under the head of general expenses, are properly administrative, and not selling expenses, and, likewise, are the items of insurance, fire, interest, licence and tax, office rent, salaries and depreciation also administrative expenses. The item of \$10,821.49, salaries, included in the above items disallowed by the commissioner of internal revenue, was salaries of employees in the office. The commissioner allowed the sum of \$6,000, the salary of the president, who was also a traveling salesman, together with his traveling expenses, as an item properly chargeable to selling expenses; but he disallowed the item of \$10,821.49, salaries of the office force, as a selling expense, and held that it was properly chargeable to administrative expenses.

Counsel for plaintiff make a rather ingenious argument upon all the items disallowed, in support of their contention that they should be allowed as "selling expenses," with some logic and reason, but, upon the whole, I am constrained to the belief that the ruling of the commissioner of internal revenue is supported by sounder reasoning than that of counsel for plaintiff.

From the brief of counsel for defendant, it seems that in the year of 1917, one Mr. Nicholson edited a work on *Cost Accounting, Theory and Practice*, and counsel insists that this is a well recognized authority on accounting; which, in the absence of



any knowledge upon the question or any experience, I am inclined to accept. On page 129 of said edition he says:

"Attention is called to the fact that the distinction between administrative expenses and production costs on one hand and selling expenses on the other, may be an artificial one only, as in many cases the administrative expenses are incurred through action or effort that may be in the interest of either production or selling . . . some of the items usually listed as administrative expenses are as follows: *Salaries of officers, salaries of office clerks, rent of offices, light and heat of offices, telephone and telegraph, stationery and printing, postage and legal expenses, carfares and incidentals, subscriptions, donations and miscellaneous.* . . . The balance may be distributed over the various classifications of sales upon some basis as used in the distribution of the selling expenses."

The deduction allowed taxpayers for an inventory loss under revenue act of 1918, is an unusual one, and not one to which the taxpayer is entitled as a matter of right, and which ordinarily exists, so, before a taxpayer is entitled to such deduction, it must bring itself squarely within the provisions of the act granting the deduction. The congress understood that business concerns had suffered a great loss brought about by demoralization of business and depreciation of values succeeding the world war, and hence, it passed the revenue act of 1918, as a means of giving such business equitable relief for the loss sustained under such abnormal conditions.

So far as my attention has been called, this section has never been before the courts for adjudication. The commissioner of internal revenue, in passing upon the claim for refund by plaintiff in this case, in denying the items now complained of, has placed a construction upon the meaning of the language of regulation 45. While that construction

is not binding upon the courts, still, it is entitled to great weight, and if consistent with reason, and not inconsistent with the plain language of the statute, courts are inclined to adopt a similar construction; especially so, when the language is unambiguous.

Article 264 of regulation 45, promulgated for the benefit of taxpayers in computing the net income of corporation taxes for the year 1918, allows the taxpayer credit for the "amount by which the value at which the goods sold were included in the inventory exceeds the actual selling price minus a reasonable allowance for selling expenses and for manufacturing expenses, if any, incurred in the taxable year 1919, and attributable to such goods," that is, goods on hand at the close of the taxable year 1918. It will be seen that the selling expenses which are properly deductible for taxable purposes, are "reasonable" selling expenses. The items deducted by the commissioner of internal revenue in this case can hardly be said to be "reasonable" selling expenses. It is true that the selling expenses may properly include some amount making some of these items, but it is impossible to ascertain that amount, and in the main, they were "administrative" expenses. It would have been impossible to have sold the goods, amounting to some one hundred eighty thousand dollars, which were purchased and sold during the year 1919, without having incurred these items, in the administrative expenses of the business. I think the taxpayer is entitled only to a rebate in such sums as were actually incurred in the "selling expenses" of the inventory of 1918, and the burden is upon the taxpayer to show that he comes clearly within the provisions of the statute, before he would be entitled to enjoy its privileges. It results, that the bill must be dismissed at the cost of the plaintiff.

GORE, Judge.

## STATE LEGISLATION

### Two Bills Affect Kentucky Accountants

The bill extending the privileged-communication clause to public accountants, the introduction of which in the Kentucky legislature was announced in the February *Bulletin*, has passed the senate and was reported favorably in the house February 28th. It is designated as house bill No. 144.

House bill No. 431 which was introduced in Kentucky, February 14th, recodifies the state licence law and provides for a licence tax on certain businesses or occupations. It includes a provision taxing each person, firm, partnership or corporation practising accountancy \$15 annually. The bill passed the house February 24th and has been reported favorably in the senate.

### Massachusetts Tax Bills Shelved

Two of the tax bills sponsored by the Massachusetts Society of Certified Public Accountants, which were mentioned in the last *Bulletin*, have been disposed of for the present session. House bill No. 715 was killed in the house, and house bill No. 716 has been referred to the next annual session of the legislature.

### Bill to Regulate Expert Witnesses in New Jersey

House bill No. 206, introduced in the legislature of New Jersey, February 13th, prescribes the procedure in appointment of expert witnesses in civil or criminal action. No more than five expert witnesses to offer the same testimony are permitted by the

bill, and it is provided that the opposing party in the action may object to their appointment. In case of objection the court would be empowered to appoint the designated witnesses, or others, according to its judgment. The charges by expert witnesses would be taxed in the same manner as other costs, according to the bill. It is provided, however, that nothing in the bill applies to persons who have been employed in a professional capacity by parties in the case before the filing of the proceedings. The bill has been reported favorably in the house.

### **Three Restrictive Laws Proposed in New York**

The Gedney bill, a proposed restrictive accountancy law, whose introduction in the New York legislature was announced in the February *Bulletin*, has been amended slightly and returned to the ways and means committee. No report has been received since that action was taken.

Another New York accountancy bill, known as house bill No. 1532, was proposed on February 28th. It is similar to the so-called Phelps-Downing bill which was introduced several years ago. It specifies that there be five members of the board of accountancy, residents of different zones of the state, each zone including certain counties. There is a waiver clause in the bill permitting the issuance of C. P. A. certificates without examination to public accountants, to members of the field staff of the income-tax unit of the bureau of internal revenue, or to accountant employees of the state of New York, who had been engaged in any of these capacities for at least three years prior to January, 1929. Under the bill licences to practise would be issued annually to certified public accountants and no unlicensed person would be permitted to practise the profession. The proposed law has been referred to the ways and means committee of the assembly.

It has been reported that a third accountancy bill was introduced March 5th, apparently a restrictive measure on the so-called two-class basis. No copy has been received as this *Bulletin* goes to press.

Identical bills amending the education law of New York relating to supervision of professions have been introduced in both

senate and assembly as senate bill No. 947 and house bill No. 1282, respectively. Accountancy is mentioned as one of the professions to which the bill is applicable. The new matter provides that if any person whose registration or licence is not legal or if anyone who is not registered or licensed because of some unintentional error or misunderstanding shall submit evidence that he possessed the prescribed requirements at the time stipulated for registration or licence, his imperfect registration may be validated or his failure to register may be remedied by means of specified procedure. The senate bill has been reported favorably by the committee on education.

### **Licence-tax Bills in South Carolina**

In addition to South Carolina house bill No. 598, which imposes on professions a licence tax of one-half per cent. of gross fees, as announced in the February *Bulletin*, another bill providing among other things for a licence tax on certified public accountants was introduced in the legislature of South Carolina, March 1st. The new bill, which is designated as house bill No. 1666, would impose an annual licence tax on every practising certified public accountant of \$10 on incomes less than \$5,000 and \$20 on those exceeding that amount.

House bill No. 598 was carried over from the last session of the legislature, and both bills are apparently now under consideration.

### **Amendments to Virginia Accountancy Law Proposed**

A Virginia bill to amend the law regarding the state board of accountancy, which was announced in the February *Bulletin* under the temporary number 79, has now been given the designation house bill No. 298. It has passed the house and progressed to the third reading in the senate. The bill includes, among other amendments, a provision that the board may accept qualifications equivalent in its opinion to a high-school education as satisfactory fulfilment of the educational requirement of candidates for C. P. A. certificates. The practice requirement under this proposed law would be two years' public accounting experience or its equivalent. Candidates who had been graduated from schools recognized by the board would

be permitted to take the examinations although certificates would not be awarded them until the practice requirement had been satisfied. Anyone who had been practising public accounting and had maintained an office in Virginia for such practice for at least 8 months prior to the passage of the bill could be registered as a "public accountant" and thereafter continue his practice under that title. Accountants neither certified nor registered would not be permitted to practise after January 1, 1929, although they might be employed in subordinate capacities by duly authorized practitioners.

The bill also prohibits use of the title "certified public accountant" under a firm name by partnerships unless all partners hold certificates granted under the laws of Virginia. The same restriction applies to the designation "public accountant." An accountant's working papers would be his property, under the proposed law.

Certified public accountants from outside the state are permitted by the bill to undertake accountancy engagements in Virginia provided they present evidence to the board showing that they are certified public accountants in good standing and obtain registration cards.

## NEWS OF LOCAL SOCIETIES

### California State Society of Certified Public Accountants

#### LOS ANGELES CHAPTER

Alexander R. Heron, a certified public accountant of California and chairman of the department of finance of the state, spoke on "California commonwealth—our business" at a meeting of the Los Angeles chapter of the California State Society of Certified Public Accountants, February 13th. Mr. Heron has been active in the reorganization and departmentalizing of various state departments and his address was received with interest.

A discussion of federal taxation was another feature of the programme. Gavin H. Welch, the local collector of internal revenue, and S. S. Stahl, agent in charge of the internal-revenue agent's office, gave short talks on coöperation between accountants and the collector's and agent's offices. George Bouchard, representative of the general council of the bureau of internal revenue on the Pacific coast, was a guest

at the meeting. Dana Latham spoke on "Taxation of real-estate subdivision trusts" and A. Calder Mackay on "The offices of the general council." Messrs. Latham and Mackay were formerly in the general council's office, and both are at present public accountants in Los Angeles. Seventy-one accountants attended the meeting.

### Maine Society of Certified Public Accountants

Charles D. Hamel was the principal speaker at a meeting of the Maine Society of Certified Public Accountants at Portland, March 3rd. He spoke on tax legislation.

### Meeting of Public Accountants of Dallas

A meeting of the public accountants of Dallas was held at the Hilton hotel, February 27th. W. P. Peter presided.

A paper on balance-sheet valuations was presented by Forrest Mathis, and the subsequent discussion was led by C. T. Lynn.

## REVIEWS

### WILLIAM DOLGE—"TAXATION WITHOUT VEXATION"

Article published in *The Magazine of Western Finance*, January, 1928.

The application of common sense to taxation is the keynote of the writer's discussion, which was prompted by the revenue bill now before congress. Mr. Dolge says that most taxpayers are not unreasonable enough to object to taxation generally. It is obviously necessary for the maintenance of government and for governmental aid to private

enterprise, but inequities in taxation and unnecessary annoyance in its administration are an inevitable source of irritation.

He says that the national debt is not excessive, as the country's wealth is quite sufficient to carry the interest charges, but he favors gradual reduction of the debt in order to release a larger percentage of treasury surplus for the use of executive departments which directly aid business.

Reduction of taxes, the writer says, means lowered costs, as taxes are always ultimately included in the price of products, and the lower costs in turn lead to extended markets, higher standards of living, more

business and more profits. He points to the fact that recent reduction in corporation taxes was followed by increased revenue from taxes. The writer particularly objects to the apparent illogic of levying taxes where the cost of collection is equal to or greater than the revenue derived. State and local taxes, according to Mr. Dolge, are a particularly important problem because they seem generally to be on the increase. He recommends that clear distinction be made between taxes levied for governmental administrative purposes and those for purposes directly or indirectly productive and that no taxes should be expended for physical construction of local improvements unless the cost of the enterprise is warranted by increased value of property due to the improvement.

In referring to the revenue bill now under consideration, the writer mentions the chaotic difference of opinion in congress, which he intimates is largely the result of selfish commercial and political interests. He expresses the belief, however, that there are always enough real statesmen in both houses of congress to insure at least approximate fairness in any tax legislation that may ultimately be adopted.

#### SAMUEL NEWBERGER—"HOW TO CLOSE YOUR BOOKS FOR INCOME-TAX PURPOSES"

Article published in the *National Laundry Journal*, February, 1928.

The writer outlines the proper procedure in closing the books of account for the calendar year for income-tax purposes. He says that certain necessary steps must be taken in order to determine, first, the amount of profit earned or loss incurred for the year; second, the amount of income tax due state and federal authorities. All expenses of doing business must be deducted from the gross income, and the following steps are mentioned by the writer as the most important in preparing the return:

Proper allowance should be taken for depreciation of fixed assets such as:

Office furniture.....	10%
Machinery and equipment.....	10%
Auto trucks.....	20%
Wagons.....	20%
Electrics.....	16 2/3%
Horses.....	20%
Brick building.....	3%
Frame building.....	5%
Concrete building.....	3%

Proper allowance should be taken for bad debts and other losses, and journal entries made therefor.

An accurate inventory should be taken of materials and supplies on hand, based on cost or market price, whichever is lower, a separate price to be placed on each item or group of items in the inventory. A separate schedule of unexpired insurance premiums should be compiled, as well as a schedule of accrued insurance premiums payable.

Prepaid interest and accrued interest payable should be scheduled and proper journal entries made therefor. A schedule of accrued salaries and wages payable should be drawn up and the proper entries made if the payroll week ends on a day other than Saturday (December 31, 1927, fell on Saturday).

It is well, the writer says, to determine the amount

of water expense accrued to the end of the year and to enter it accordingly.

All bills and expenses incurred for the past year should be entered in order that total credit may be taken for them on the tax return. The net income is to be computed on either cash basis or an accrued basis, depending on the method of accounting regularly used by the taxpayer.

The writer emphasizes the importance of reviewing expenditures of the year for the purpose of segregating additions to capital assets from expenses of operation.

The writer mentions that net losses incurred in the previous year in the regular operation of trade or business are deductible from the net income from the two succeeding taxable years.

#### SAMUEL F. RACINE—"THE SEASON NEVER CLOSES"

Article published in *The Magazine of Western Finance*, November, 1927.

The writer's purpose is to analyze various schemes which have been used to borrow money from banks under false pretenses. In a humorous vein he discusses several specific instances where considerable sums were advanced by bankers to customers whose security was entirely inadequate and whose position was often precarious. In most of these cases the fault is traced to the neglect of the banker to insist on proper audit of his customer's books and on a complete financial statement prepared by a reputable accountant. The writer expresses astonishment at the number of instances in which bankers have displayed carelessness in accepting insufficient information as a basis for loans. He narrates from his own experience how borrowers have practised deliberate deceit and he shows how the accounts had been manipulated to present an apparently satisfactory statement to the banker. In all these cases an adequate examination would have disclosed the true condition.

#### CHARLES H. PETERSEN—"NECESSITY FOR A WORKING RELATIONSHIP BETWEEN PUBLIC ACCOUNTANTS AND ATTORNEYS"

Article published in *The San Francisco Recorder*, December 15, 1927.

The writer begins his article with the statement that the public accountant has proven his worth in the business world. He refers to the numerous purposes for which an accountant's advice and services are sought and says that business firms have come to recognize the necessity for the accountant's functions. There is one field, however, according to the writer, in which the public accountant has not been given proper recognition and that is in his relationship with the attorney.

The writer expresses surprise at the lack of recognition of the immense possibilities of close cooperation between these two professions. The problems of both accountants and attorneys are inherently technical. Modern business requires the services of both and in many instances their functions are complementary or interlocking, as in mergers, reorganizations or consolidations. The accountant is not qualified to prepare agreements nor to interpret the legal phases of the situation, and the attorney

on the other hand is not qualified to give effect to complex financial transactions on the books of account. The writer lists the following matters in which closer cooperation between accountants and attorneys would have great value: partnership contracts and litigation, unfair competition and

litigation, estate accounting, federal income-tax cases, bankruptcy cases, receiverships, incorporations and reorganizations. The writer then explains in detail the problems in such affairs which necessitate the collaboration of members of the accountancy and legal professions.

## OBITUARY

### Joel Hunter

Joel Hunter, a member of the American Institute of Accountants and a certified accountant of Georgia and Ohio, died March 6, 1928. Mr. Hunter was a charter member of the Institute and had been a member of the American Association of Public Accountants, the Institute's predecessor. He had served on committees of both the association and the Institute. He was a fellow of the Georgia Society of Certified Public Accountants.

He was fifty-eight years of age and had been a practising public accountant for many years. At the time of his death he was senior partner of the firm of Joel Hunter & Co., Atlanta.

Mr. Hunter had been a lecturer on accounting and related subjects at Emory University, Oglethorpe University and the University of Georgia. In 1923 the degree of Doctor of Commercial Science was conferred on him by Oglethorpe University.

Funeral services were held on the after-

noon of March 7th, when all the accounting offices in Atlanta were closed in honor of the memory of Mr. Hunter.

### Peter T. Wright

Peter T. Wright, a member of the American Institute of Accountants and a certified public accountant of Delaware, died on February 9, 1928. Mr. Wright had been a member of the American Institute of Accountants since 1916 and before that time was a member of the American Association of Public Accountants. He had occupied positions on several committees of the Institute. Mr. Wright had held every office in the Delaware Society of Certified Public Accountants, of which he was president at the time of his death. He had also been president of the state board of accountancy of Delaware since 1913. He was a fellow of the Actuarial Society of America. He was in practice on his own account in Wilmington.

## COURT DECISIONS

### Taxation

Income. Corporate reorganization. Whether gain resulting from conveyance of certain interests to new corporation was taxable as not constituting an exchange of securities.

The husband of a plaintiff in an action had held as part of their community property certain shares of stock of a certain corporation standing in his name. He had also been the owner of an undivided one-half interest in a lease of which the corporation owned the other half interest, and the holder of a patent process for refining oil. As a condition precedent to the acquisition of his stock he was required to convey to a new company to which all of the property of the corporation was conveyed, both aforementioned interests. The new company agreed to deliver for all the stock in the old company \$35 in bonds for each share of

stock. For the undivided one-half interest in the lease plaintiff's husband received \$100,000 of bonds and \$200,000 of said bonds for the oil-refining process. The correctness of the assessment and collection of the taxes upon the bonds received for the lease and the oil-refining process was questioned.

It was held that plaintiff must pay a tax on the gain derived from the sale of the one-half interest of the lease and the oil-refining process, for it could not be treated on the same basis as the transfer of the stock of the old company. They were separate property of a different kind, having no connection with the corporation except that the lease was jointly owned by it with plaintiff's husband, while the oil-refining process was used by it and a royalty paid him therefor. It was in no sense an ex-

change of securities under the statute (section 202 (b) revenue act of 1918) provided that on an exchange on reorganization no gain or loss is deemed to occur with respect to the securities received in exchange, but clearly a sale or assignment upon which if there was a profit the taxes were due.

*Atkins v. Bender*, U. S. dist. court, west dist. of Louisiana, Shreveport div., February 15, 1928.

**Excess-profits tax.** Whether cost of constructing mine slopes allowable as invested capital after profit had been realized. Basis for arriving at capital invested in employee's quarters.

An action was brought to recover an amount collected from plaintiffs as an excess-profit tax on income for the year 1917. Plaintiffs were coal-mining companies and it appeared that three coal-mining slopes had been extended to the depths and at the cost claimed by plaintiffs but that a profit had been realized from the operation of each mine at a depth much less than the full depth. The lower court had held that the cost of constructing the slopes should not be allowed as invested capital after a

profit had been realized. The court had also adopted as a basis for arriving at invested capital only that part of the cost of material and labor, used in erecting several hundred houses as employees' living quarters, which was shown by books kept by plaintiffs.

The court held that the judgment should be reversed and that the claim of plaintiffs for an allowance for the additional cost to the full depth of the slopes should have been allowed. Money laid out in the construction of a coal mine to a greater depth is invested capital just as much as is money spent to add a second story to a building which is already rented at a profit. It was held, further, that if plaintiffs' books only disclosed the cost of the planed lumber and hardware which they bought from others but did not disclose the value of the rough lumber which was furnished and manufactured then the court should consider the value of such houses as a whole and not merely that part of the value shown by the books in arriving at the amount of invested capital.

*Blockton Cahaba Coal Co. v. U. S.*, U. S. cir. ct. of appeals, 5th cir. (Alabama), February 14, 1928.

## HERE AND THERE

Fraser, Dell & Co., 316 Scarritt building, Kansas City, Missouri, announce the association of Walter Sanderson with the firm.

Harry E. Taylor announces the opening of an office in the Williamson building, Cleveland, Ohio.

Ernest E. Wooden and James L. Benson, Baltimore, Maryland, announce the formation of a partnership under the firm name of Wooden & Benson, with offices at 1829 Munsey building, Baltimore.

The following paragraphs report activities of members and associates of the Institute:

Orrin R. Judd, New York, addressed a meeting of the Association of University and College Business Officers of the eastern states held in Charlottesville, Virginia,

December 3, 1927, on "The sweetmeat of educational endowment funds."

Elmer L. Hatter, Baltimore, delivered an address on "Accountancy—a profession" before the graduates of the Forest Park high school, February 1, 1928.

Edwin E. Leffler, Buffalo, spoke on "Standard costs—the tool of management" before the Buffalo chapter of the American Institute of Industrial Engineers at a meeting held January 9th.

Walter L. Morgan, Philadelphia, is writing a series of articles on federal taxes for the *Philadelphia News Bureau*. The articles are particularly concerned with the problems confronting investors and bankers in the preparation of their income-tax returns.

G. A. Treadwell, New Orleans, has been reappointed a member and vice-chairman of the postal-facilities committee of the Association of Commerce of his city.

# BULLETIN

OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS

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APRIL 18, 1928

SERIES B, No. 48

## Annual Meeting, American Institute of Accountants

In accordance with the decision of the members of the Institute at the 1927 annual meeting held at Del Monte, California, last September, the next annual meeting will be held at Buffalo, New York, or in that vicinity. The days of the meeting, which are fixed by the by-laws, will be September 18 and 19, 1928.

The president of the Dominion Association of Chartered Accountants has expressed the desire of the Canadian accountants to arrange their meeting so that joint sessions with the Institute may be held. The Dominion Association will probably meet at Toronto, and efforts will be made by both organizations to facilitate reciprocal visits.

## Institute Examinations

The schedule of examinations of the American Institute of Accountants, to be held May 17 and 18, 1928, is as follows:

Thursday, May 17th, 9 a.m. to 12.30 p.m.—

Auditing

Thursday, May 17th, 1 p.m. to 6 p.m.—

Accounting theory and practice, part I

Friday, May 18, 9 a.m. to 12.30 p.m.—

Commercial law

Friday, May 18th, 1 p.m. to 6 p.m.—

Accounting theory and practice, part II

## President Visits Western Accountants

John R. Ruckstell, president of the American Institute of Accountants, was entertained by groups of accountants in San Francisco, Portland, Seattle and Spokane, during the last part of March.

On March 20th Mr. Ruckstell spoke at a meeting of the San Francisco chapter of the California Society of Certified Public Accountants. He stressed the value of membership in the Institute and in state societies, and particularly impressed the importance of such affiliation upon recent recipients of C. P. A. certificates, a group of whom were guests at the meeting.

Mr. Ruckstell was the guest of the Oregon Society of Certified Public Accountants at a dinner at the Arlington club, Portland, March 26th. In his address he pointed out the widening of the personal view which may be gained from membership in a professional organization and he showed how such a society is the only means by which collective and consistent action by a profession may be assured. He mentioned the value of local organization, which engenders personal acquaintance and mutual respect among practitioners and consequently encourages pride in ethical conduct on the part of each member.

Mr. Ruckstell next discussed the various national accountancy organizations. He showed how a nationally representative group can command a hearing and compel attention on the part of legislative bodies and other organizations whose activities affect the interests of the group concerned. He traced the accomplishments of the Institute in accountancy education, dissemination of professional thought by means of publications and the bureau of information, services to state boards in assisting the maintenance of high standards in C. P. A. examinations, and efforts to encourage desirable C. P. A. legislation. He spoke of

the Institute's independence of political domination and said that its manner of organization insured its permanency. He described in detail the library, the bureau of information, the bureau for placements, and *The Journal of Accountancy*. In conclusion Mr. Ruckstell expressed his pride in his position as head of a great and useful body, which has been instrumental in increasing the prestige of the accountancy profession.

At a meeting of accountants at Seattle, March 28th, Mr. Ruckstell told his audience that the mutual desire of accountants' societies is advancement of the profession and that coördinated effort, not individual personal self-laudation, is the best method of continuous progress. The influence of a national organization in educating the business public was also stressed by Mr. Ruckstell. It is quite possible, he intimated, that laws similar to the British companies act may be enacted in this country to protect the investing public by compelling companies issuing securities to publish certified financial statements, and he said that such a condition would enhance the position of the legally responsible practitioner and correspondingly minimize the importance of unethical, unaccredited accountants. Mr. Ruckstell urged the strengthening of the Washington Society of Certified Public Accountants and expressed the hope that the Institute would receive the coöperation and support of the accountants in Washington.

The Spokane chapter of the Washington Society of Certified Public Accountants received Mr. Ruckstell on March 30th. At this meeting he said that it is an obligation which every accountant should naturally be eager to discharge to improve in all ways the status of the profession and consequently the welfare of its members. He traced the history of accountancy in America from its comparatively humble beginnings, when accountants were little more than independent bookkeepers, who were seldom engaged except to detect fraud or embezzlement and usually confined their work to checking the statements prepared by bookkeepers. Mr. Ruckstell said that at one time in California the accountant's fees were fixed by law at five dollars per diem. At present, he continued, conditions in the profession are much improved, although some unfavorable conditions still prevail. Accountancy education is

gradually developing and professional examinations have raised the standard of quality. Continuous supervision and discipline of practitioners, he said, have kept a high tone in the profession. Income taxation, according to Mr. Ruckstell, has stimulated accountancy practice and has emphasized the importance of accounting to the public, and blue-sky laws have strengthened the belief in the value of accounting.

Mr. Ruckstell predicted that in the future the preliminary requirements for accountants would be broader and that the scope of professional practice would be wider than at present. He pointed to the comparatively greater field for accountants in England as an indication of what might occur in this country. He concluded with an expression of the expectations of the Institute in its efforts to foster the growth of the profession in every way.

### **Accountants' Auxiliary—United Hospital Fund**

It has been reported that the contributions of the Accountants' Auxiliary of the United Hospital Fund in 1927 are more than double the amount contributed in the previous year. Twenty-four accountants who had not previously subscribed made gifts in 1927.

### **Accountants Address College Students**

Walter I. Morgan of Philadelphia spoke before students of Ursinus college, March 21st, on behalf of the special committee for placements of the American Institute of Accountants. The subject of his address was "Possibilities which are open to college graduates in the accountancy profession." Mr. Morgan said that of his class at Princeton, containing 385 graduates, he was the only one to enter public accounting. He said that the proportion of college men in the profession is increasing noticeably.

On March 27th Ernest A. Roden, a member of council of the Institute, spoke before the Commerce club of Ohio University on accountancy as a career, at the request of the special committee for placements. He clearly explained the difference between bookkeeping and accounting, and outlined generally the work of a public practitioner. Mr. Roden stressed the need of the profession for well educated staff assistants who might be expected in time to occupy responsible positions.



### **Accountant Elected Delegate to Republican Convention**

J. E. MacGregor of Duluth, a member of the American Institute of Accountants, has been elected a delegate from Minnesota to the national convention of the Republican party.

### **Accountants Study Management Practice**

In coöperation with the committee of professional research consultants of the New England Council, the Massachusetts Society of Certified Public Accountants has undertaken a study of the practices of New England management.

### **Scottish Society Plans Employment Registry**

The Institute of Accountants and Actuaries in Glasgow has under consideration a plan for the establishment of an employment registry for accountants. It is hoped to commence the operation of the registry during the current year, according to a report of the council dated February 17, 1928.

### **Investment Bankers Urge Regulation of Accounting Systems**

The board of governors of the Investment Bankers Association of America has reported that only six states attempt to supervise the accounting systems used by municipally owned public utilities. The board recommended that public officers adopt the accounting methods now in force in the states where public-service commissions exist.

### **Farm Accounts**

Last year one hundred and forty-seven farmers in Pennsylvania obtained copies of a farm-account book prepared by Pennsylvania State College, according to the county agent of the York County Agricultural Extension Association. The object of the association is to interest farmers in improved business methods, and emphasis is placed on correct accounting, which is receiving increasing attention from Pennsylvania farmers. It is said that the practice of summarizing and analyzing accounts at periodic intervals is not sufficiently common as yet, and a department of the state college has

offered assistance to farmers in making such analyses. April 1st seems to be the date adopted as the beginning of the farmers' fiscal year.

### **Evening Classes in Accounting at Nevada University**

It has been announced that weekly evening classes in advanced accounting were commenced at the University of Nevada March 20th. A class for beginners in accounting, which has been meeting one evening a week, will be continued in addition to the new course.

### **Uniform Accounting for Connecticut Towns**

S. Earl Shook, member of the board of governors of the Connecticut Society of Certified Public Accountants, has commented in a statement to the press upon remarks made by the governor of the state expressing the desirability of a uniform system of accounting for all towns in Connecticut. Mr. Shook mentions the resolution adopted last year at a meeting of the Connecticut Society, offering the services of its members gratis in investigating the question and making recommendations for a uniform accounting system for towns. The society at that time discussed the subject with William H. Blodgett, state tax commissioner, who it is said was heartily in favor of the adoption of such a system.

### **Accountancy in Industry and Business**

There is apparently increasing attention paid to accounting matters in trade and business organizations, which has become more and more noticeable during the years following the world war. As an illustration of this tendency several articles which have appeared in the March issues of three trade and business magazines may be cited.

Stephen I. Miller, in an article in *Credit Monthly*, emphasizes the prime importance of the financial statement in granting credit, and he outlines methods of composing balance-sheet ratios and indices of the profit-and-loss statement which may be helpful in determination of a credit risk. The ability to analyze and interpret accounting data and statements, it is said in the article, is an important attribute of credit men.

"Your accounting system and your bank credit" is the title of an article by J. E. Bullard in *The Inland Printer*, in which the author directs the attention of the printing industry to the desirability of complete and accurate records, periodic inventories and appraisals, effective cost systems, monthly profit-and-loss statements, etc., as a basis on which loans may be obtained. He illustrates his argument with actual and hypothetical instances showing the advantages of proper accounting procedure.

W. B. Lawrence, in an article in *The Photo-Engravers Bulletin*, refutes some of the excuses offered by photo-engravers for failure to use cost systems. He shows the

fallacy of such arguments as those based on smallness of a plant, possible hostility of employees to the innovation, and various misunderstandings of the use and value of cost systems.

### Railway Accountants Meeting

The Institute has received a copy of the agenda for the fortieth annual meeting of the Railway Accounting Officers Association, which is to be held at Atlanta, May 1 to 4, 1928. A tentative statement of order of business, reports of fourteen committees and a proposed amendment to the constitution of the association are among the matters included in the agenda.

## STATE LEGISLATION

### Kentucky Bills Dead

House bill No. 431, providing for an annual licence tax on public accountants, among other professional and business men, was passed by both houses of the Kentucky legislature, but was vetoed by the governor March 24th.

A bill extending the privileged-communication clause to certified public accountants, known as senate bill No. 144, passed the senate but was not acted upon in the house prior to adjournment, which occurred March 16th.

### Privileged Communication Proposed for Mississippi Accountants

Immunity from compulsion to testify in court with reference to affairs of clients might be accorded public accountants in Mississippi under house bill No. 1147, which was introduced in the legislature March 25th. The bill provides for an annual licence tax of \$15 on members of public accounting firms and \$5 on each of their staff assistants. By payment of \$10 extra by partners, and \$5 extra by staff assistants, the right of privileged communication might be granted the accountants concerned, according to the bill.

### New York

None of the three accounting bills proposed in the New York legislature was passed prior to adjournment, which occurred March 22nd.

Senate bill No. 947, however, which concerns the registration or licensing of persons engaged in various professions, among them public accounting, passed both houses and was approved by the governor March 23rd. Its chapter number is 537. Following is the text of the act:

#### NEW YORK Law of 1928

An act to amend the education law, in relation to the supervision of professions.

The people of the state of New York, represented in senate and assembly, do enact as follows:

Section 1. Section fifty-one of chapter twenty-one of the laws of nineteen hundred and nine, entitled "An act relating to education, constituting chapter sixteen of the consolidated laws," as amended by chapter one hundred and forty of the laws of nineteen hundred and ten, as amended by chapter three hundred and fifty-seven of the laws of nineteen hundred and seventeen and by chapter six hundred and sixty-six of the laws of nineteen hundred and twenty-five, is hereby amended to read as follows:

Sec. 51. *Supervision of professions.* Conformably to law the regents may supervise the entrance regulations to and the licensing under and the practising of the professions of medicine, dentistry, veterinary medicine, pharmacy, optometry and chiropody, and also supervise the certification of nurses, public accountants, certified shorthand reporters, architects and members of any other profession which may hereafter come under the supervision of the head of the board of regents.

The regents may by rule or order accept evidence of preliminary and professional education, in whatever state or country the same may have been obtained, for licensing a candidate to practise any such profession in lieu of that prescribed by the laws relating to such profession; provided it shall appear to the satisfaction of the regents that such

candidate has substantially met the requirements of such laws.

And the regents shall have further power to indorse a licence issued by a legally constituted board of examiners in any other state or country upon satisfactory evidence that the requirements for the issuance of such licence were substantially the equivalent of the requirements in force in this state when such licence was issued, and that the applicant has been in the lawful and reputable practice of his profession for a period of not less than five years prior to his making application for such indorsement. When the evidence presented is not satisfyingly sufficient to warrant the indorsement of such licence, the board of regents may require that the candidate for indorsement shall pass such subjects of the licensing examination specified by statute or regents' rule as should be required of the candidate to establish his worthiness to receive such indorsement.

In the event any person whose registration or licence in any of the aforesaid professions is not legal or in the event any person who is not registered or licensed because of some error, misunderstanding, unintentional omission, or other cause which the regents may determine to be excusable, shall submit to the regents satisfactory proof that he possessed all the requirements prescribed by law at the time required for registration or licence, or their equivalents, he may, by action of the regents, receive from the education department a licence or a certificate of facts under seal which may be registered by any county clerk and shall make valid the previous imperfect registration or shall remedy such failure to apply for or to receive such licence, and such licence or certificate shall include the date on which such person could or should have registered or could or should have applied for or received such licence, and his registration or licence, as the case may be, shall be deemed to have been valid and corrected from that date.

Sec. 2. This act shall take effect immediately.

## Virginia

An accountancy bill in Virginia, house bill No. 286, which was reported in the March *Bulletin*, passed both houses and was approved by the governor March 26th. The text of the new law is as follows:

### *House Bill No. 286*

(Italics indicate new matter)

A bill to amend and reenact sections 566, 567, 568, 569, 570, 571 and 572 of the Code of Virginia, relating to the state board of accountancy, and to add a new section relating thereto, designated as section 572-a.

1. Be it enacted by the general assembly of Virginia, that sections five hundred and sixty-six, five hundred and sixty-seven, five hundred and sixty-eight, five hundred and sixty-nine, five hundred and seventy, five hundred and seventy-one and five hundred and seventy-two of the Code of Virginia be amended and reenacted, and that a new section be added thereto, designated as section five hundred and seventy-two (a), which sections so amended and

reenacted, and the said new section shall read as follows:

Sec. 566. State board of accountancy, number and qualification of members, vacancies.—The state board of accountancy, as created by chapter one hundred and fifty-eight of the acts of assembly of nineteen hundred and ten, is continued, and shall continue to consist of five members to be appointed by the governor; one member shall be a practising attorney in good standing in any of the courts of this state; one member shall be an educator, and the other three members shall be practising certified public accountants who shall have been actively engaged in such practice for at least three years next preceding their appointment, and who hold certified public accountant's certificates issued by the said state board of accountancy.

*The persons who constitute said board when this amendatory act takes effect, shall continue in office until the first day of July, nineteen hundred and twenty-eight; and at least thirty days prior thereto, and every three years thereafter, the governor shall appoint their successors for terms of three years, respectively.*

Vacancies occurring for any cause shall be filled by appointment by the governor for the unexpired term.

Sec. 567. Who may become certified public accountants and public accountants.—The certificates of "certified public accountants" shall be granted by the state board of accountancy to any person who is (a) a citizen of the United States or who has duly declared his or her intention of becoming such citizen, and who is domiciled in the state of Virginia, or has a place of business therein at the time of making application, and (b) who is over the age of twenty-one years, and (c) who is of good moral character, and (d) who is a graduate of a high school with a four-year course or who, in the opinion of the board, has had equivalent education through commercial experience, or otherwise, and (e) who shall have continuously for at least two years immediately preceding the date of his or her application been engaged in practice as a public accountant or shall have been in the employ of a practising certified public accountant, or public accountant as a staff accountant, or shall have been part of such time in such practice and part of such time in such employ or who in the opinion of the board shall have had experience equivalent to that required in the foregoing or shall have had sufficient experience to entitle him to practise accountancy in the event he or she passes the examination herein provided, and (f) who shall have passed examinations in theory of accounts, in practical accounting, in auditing, in commercial law as affecting accountancy and in such other related subjects as the board may deem advisable. No applicant shall be examined in these subjects stated in (f) above until the board shall have been satisfied in respect to the other requirements, stated in (a) to (e) above, inclusive, except, however, that any person possessing the necessary qualifications, except the practical experience, who may have completed an accountancy course in a university or college of recognized standing, or graduated from an accountancy school acceptable to the board, may be examined in the subjects specified in (f) above, even though lacking in respect to the required practical experience, and upon receiving a satisfactory grade may be granted the cer-

## Bulletin of American Institute of Accountants

tificate of certified public accountant, but not until the said practical experience shall have been obtained, and any person receiving such certificate shall be known and styled as a "Certified Public Accountant."

Any person or member of a partnership having an office in this state who, for at least eight months next preceding his application for registration hereunder, has held himself out to the public generally as a practising public accountant for compensation, and who has maintained in this state an office for the transaction of such practice and whose time during the regular business hours of the day was devoted to the practice of public accountancy, may, within three months after July first, nineteen hundred and twenty-eight, apply in writing to said board for registration as a "Public Accountant," and the said board, upon the production of satisfactory evidence that such applicant was engaged in the public practice of accountancy and maintained an office for that purpose, as provided above, shall register such person, provided he or she, at the time of the application, possesses the requisites of citizenship, age, moral character, and education herein set forth. Such registration shall be conclusive evidence of the right of such person to engage in the practice of public accounting in this state, but such registration shall not be construed in any way as indicating that the state board of accountancy has assumed any responsibility for the professional experience and qualifications of the registrant; and any person so registered shall be known and styled as a "Public Accountant."

Any partnership practising accountancy in this state may use the designation or practise as certified public accountants under a firm name only if all the members thereof are holders of certified public accountant's certificates granted under the laws of this state, and any partnership practising accountancy in this state may use the designation or practise as public accountants under a firm name only if all the members thereof are duly registered and qualified as public accountants under the provisions hereof or are registered with the board under the provisions of section 572 (a). Each of the members of any partnership which shall use the designation "Certified Public Accountants" or "Public Accountants" except upon compliance with the requirements hereinbefore made shall be subject to the penalties prescribed in section 572 of this act.

Sec. 568. Examination of applicants.—All examinations provided for in this chapter shall be conducted by the state board of accountancy, or by a majority thereof. The examinations shall be held in Richmond at least once in each year, or oftener, in the discretion of the board. The time and place of holding examinations shall be duly advertised for not less than three consecutive days in at least one daily newspaper published in Richmond, one published in Norfolk, one published in Lynchburg, and one published in Roanoke, not less than thirty days prior to the date of each examination. The board may make all needful rules and regulations regarding the conduct and scope of the examination, the method and time of filing applications for examination and all other rules and regulations necessary to carry into effect the purpose of this act.

Sec. 569. When board may waive examination.—The board may, in its discretion, waive the examination provided in this chapter, and may issue a certificate of certified public accountant to any person who possesses the other qualifications stated in section

567, and who is the holder of a certificate of certified public accountant issued under the laws of any state or territory or the District of Columbia which extends similar privileges to certified public accountants of this state, provided the requirements for such certificate in the state or territory or the District of Columbia which has granted it to the applicant are, in the opinion of the board, equivalent to those herein required; or who is the holder of a certificate of certified public accountant, or the equivalent thereof, granted under the authority of a foreign nation, provided the requirements for such certificates are, in the opinion of the board, equivalent to those herein required.

Sec. 570. Revocation of certificate and appeals.—The board may revoke any certificates issued, or cancel any registrations made, under this act if the holder or registrant (a) shall be convicted of a felony, or (b) shall be declared by any court of competent jurisdiction to have committed any fraud, or (c) shall be declared by any competent court or commission to be insane or otherwise incompetent, or (d) shall be held by this board to be guilty of any act or default discreditable to the profession, provided that written notice of the cause of such contemplated action and bill of particulars thereof and the date of the hearing thereon by this board shall have been mailed to the holder of such certificate or to such registrant at his or her last known address at least twenty days prior to such hearing. At all such hearings the attorney general of this state, or one of his assistants designated by him, shall upon request of the board or the person accused, sit with the board with all the powers of a member thereof. Any person whose certificate is revoked or whose registration is canceled by the board shall have the right of appeal, within thirty days from date of final decision of the board, to the supreme court of appeals of Virginia.

Sec. 571. Fees to be paid by applicants per diem and expenses of members of board, report to governor.—The board shall charge each applicant for a certificate of "certified public accountant" a fee of twenty-five dollars for the examination and certificate provided for in this chapter, which fee shall be payable at the time of the application. In the case of the failure on the part of any applicant to attend the examination on the date specified by said board, or to pass a satisfactory examination, said applicant may appear at subsequent examinations of said board for reexamination, within a period of two years from the date of the first examination upon the payment of the further sum of ten dollars. The board shall charge each applicant for registration as a "public accountant" a fee of ten dollars payable at the time registration is made.

The board shall, on July first of each year, issue a registration card to any holder of a certificate of "certified public accountant" issued under the laws of this state, or other states, as provided in section five hundred and seventy-two (a), or to any duly registered "public accountant" which card shall be good until June thirtieth of the next succeeding year charging therefor not more than five dollars per year. Interim registration cards shall be issued to applicants who have complied with the provisions of this act. Failure to secure a registration card in any year shall not disqualify a person previously duly registered as a "public accountant" from securing a card in a future year, if said person decides to return to the public

practice of accountancy; and shall not operate to revoke a certified public accountant certificate once issued, but shall remove the holder thereof from those registered and authorized to practise during the year. When registration cards are secured after July first of each year, such persons shall not be subject to the penalty prescribed in section five hundred and seventy-two, provided cards were secured prior to charges having been preferred against such persons, that were practising unlawfully.

All fees collected by said board shall be, by it, paid quarterly, into the state treasury. The members of the board shall receive an amount not exceeding ten dollars per day to each member, for the time actually spent in the performance of their duties under this chapter, which as well as their necessary traveling expenses and other expenses incident to awarding certificates, et cetera, shall be paid out of the state treasury, from funds not otherwise appropriated, on warrants drawn by the comptroller, on certificates issued by the chairman of the board.

The board shall report annually to the governor the number of certificates issued and the amount of receipts and expenses under this chapter.

Sec. 572. Penalty for violating provisions of this chapter.—From and after the first day of January, nineteen hundred and twenty-nine, it shall be unlawful for any person to engage in the public practice of accountancy in the state of Virginia except those possessing certificates of certified public accountant issued by this state, and or duly registered public accountants. Any person not certified by the Virginia state board of accountancy, or any person to whom a certificate was issued but subsequently revoked who shall practise as a certified public accountant, shall be deemed guilty of a misdemeanor, and upon conviction thereof shall be fined not more than five hundred dollars, or imprisoned for not more than six months, or both, in the discretion of the court, or jury. Any person not registered as a public accountant by the Virginia state board of accountancy, who shall assume to practise as a public accountant either by the use of the words "public accountant" on his or her door or stationery, or by signing in the capacity of an accountant a certificate in writing in reference to any financial statement, shall be deemed guilty of a misdemeanor, and, upon

conviction thereof, shall be fined not more than five hundred dollars or imprisoned for not more than six months, or both, in the discretion of the court or jury; provided, however, that nothing contained in this act shall prohibit any person from engaging in any accountancy work for one or more persons so long as such person does not hold himself or herself out to the public as a certified public accountant, public accountant, or accountant or auditor, offering his or her services to all those who may choose to apply; provided further, that nothing contained in this act shall prevent the employment of uncertified persons or non-public accountants in subordinate capacities by a certified public accountant, or public accountant, or by a firm or partnership, the members of which are all holders of certified public accountant's certificates granted under the laws of this state or duly registered public accountants.

Sec. 572-a. All statements, records, schedules and memoranda made by a certified public accountant or a public accountant, or by an employee or employees of a certified public accountant, or public accountant, incident to or in the course of professional service to clients by such certified public accountant, or public accountant, except reports submitted by a certified public accountant, or public accountant, to a client shall be and remain the property of such certified public accountant, or public accountant, in the absence of a written agreement between the certified public accountant, or public accountant, and the client, to the contrary.

Nothing contained in the foregoing sections shall be construed as preventing certified public accountants of recognized standing of other states, or territories, or the District of Columbia or holding equivalent certificate, granted under authority of a foreign nation, from undertaking accountancy engagements in this state, provided they present to the board evidence showing that they are certified public accountants in good standing and obtain from the board the registration card referred to hereinbefore.

2. All acts and parts of acts in conflict with any of the provisions of this act, are hereby repealed.

The Virginia legislature adjourned sine die March 20th.

## STATE BOARDS OF ACCOUNTANCY

### Five C. P. A. Candidates Successful in Connecticut

The following candidates passed the certified public accountant examinations conducted by the Connecticut state board of accountancy in November, 1927: John J. Chilson, John J. Gatesy, Joseph Krauskoph, A. J. Pfannenstiel and Abraham Solomon.

### Delaware

Joseph L. Pyle has been appointed a member of the Delaware state board of accountancy for two years to fill the vacancy caused by the recent death of Peter T. Wright.

### Ohio

It has been announced that the Ohio state board of accountancy has granted C. P. A. certificates to Henry M. Cryer and H. W. Hooper by examination, and to F. D. Lehn and I. S. Silbert by reciprocity.

### Porto Rico Board Issues Regulations

The board of accountancy of Porto Rico has published its regulations and rules for examinations, under the provisions of the accountancy law approved May 13, 1927. The law was published in the Institute Bulletin for September, 1927.

The regulations provide for the organization and procedure of the board of examiners, for the issuance of certificates without examination to accountants who meet the

specific requirements and apply within a limited time, and for the cancellation, revocation or suspension of certificates because of unprofessional or dishonorable conduct.

## NEWS OF LOCAL SOCIETIES

### County Auditor Addresses Accountants

A discussion of the audits of Los Angeles county for the grand jury and the board of supervisors made by independent firms of accountants was the principal topic in an address by Herbert A. Payne, county auditor for the county of Los Angeles, delivered at a meeting of the Los Angeles chapter of the California Society of Certified Public Accountants, March 19th. Mr. Payne stressed particularly the need of closer coöperation between the public officers and the certified public accountants of the state. He also presented statistics concerning the volume of work covered by the county auditor's office.

The chapter appointed a committee consisting of Walter K. Mitchell, chairman, Arthur Wolff and George M. Thompson, to present recommendations at the next meeting regarding a modified tax programme for the state of California. The governor of the state has appointed a special committee to report on such a programme at the next session of the legislature and the chapter may present its recommendations to the special committee.

R. W. E. Cole was appointed chairman of the nominating committee to report at the next meeting, suggesting nominations for officers for the coming year. Other members of Mr. Cole's committee are George Thompson and Harry Hill.

### Connecticut Society Elects Officers

At the annual meeting of the Connecticut Society of Certified Public Accountants at New Haven, April 11th, the following officers were elected for the ensuing year: Seth Hadfield, president; Henry Knust, vice-president; Warren M. Brown, secretary; Lewis Sagal, treasurer, and William L. Keating, auditor.

### Florida Institute of Accountants

The quarterly meeting of the Florida Institute of Accountants will be held at St.

Petersburg, April 21st and 22nd. Officers of the American Institute of Accountants have accepted invitations to be present. The Jacksonville chapter of the Florida Institute is planning a luncheon for officers of the American Institute on April 18th and they will meet the accountants of Miami on the 23rd and 24th.

On April 19th Walter Mucklow, president of the Florida Institute, accompanied by officers of the American Institute, expects to visit the University of Florida at Gainesville, where he will address the student body on "Relation of the accountant to the business man."

### Receivables

The last of a series of six bulletins published by the public-affairs committee of the Indiana Association of Certified Public Accountants deals with the subject of receivables.

The bulletin says that receivables offer infinite possibilities for investigation and analysis, and that a study of the item rarely fails to be productive. Consideration should be given to the number of customers and the sales to each of them and reports of aggregate sales to these customers arranged geographically should be available, in order to facilitate the determination of increase and decrease in sales by customers and by geographical groups.

The bulletin points out the danger of having relatively few accounts absorb a large percentage of the output, for in such cases the loss of one or a few customers results in a considerable shrinkage of sales. Records of increase and decrease of customers should be kept in addition to records of sales volume, according to the bulletin. Sound credit and collection policies may help to keep losses of money and customers at a minimum. The importance of establishment of the financial responsibility of a customer at the time the order is taken is stressed as a means of reducing bad-debt losses. On the other hand, despite diligence on the part of the credit department,

a loss may be sustained if an account once placed on the books is allowed to become stagnant. A normal bad-debt loss should be determined by proper investigation and careful inquiry should follow any variation from the norm. The bulletin quotes percentages showing bad-debt loss in relation to net sales in several industries, which were found by an investigation sponsored by the National Association of Credit Men.

It is said that a frequent ageing of receivables should be made in order that complete data will be available concerning the relation of past-due accounts to total accounts. Shipments to customers whose accounts are past due should cease when it is decided that the likelihood of collection is slight.

The bulletin cites various forms of statistical records which may be of assistance in analysis of receivables.

### **Accountants Society Supports Local Improvements**

The Society of Louisiana Certified Public Accountants is one of a number of organizations which have subscribed to a resolution endorsing a legislative measure to insure improvement of drainage conditions in New Orleans, including authority to issue bonds to obtain the necessary funds.

### **Charles D. Hamel Addresses Accountants**

Charles D. Hamel, counsel for the joint congressional committee on internal-revenue taxation, was the principal speaker at a meeting of the Maine Society of Certified Public Accountants held at Portland, March 3rd.

Mr. Hamel commented on the continued difficulty of the public in understanding income-tax laws, although they have been in force for fifteen years. In his opinion simplification of the existing law to clarify obscure passages is entirely feasible. He referred to the section of the law concerning earned income as an illustration of the difficult passages responsible for many errors. He hoped the government would codify the various taxes. He also expressed disapproval of the government in its dealing with its employees. He said that the poor salaries paid employees naturally result in a lack of properly qualified assistants. Mr. Hamel advocated complete knowledge by

the public of the proposed changes in the revenue laws before their enactment. He also commented on the nature and functions of the board of tax appeals, the bureau of internal revenue and the special advisory committee.

Curtis J. Birkenmayer, president of the Maine Society, presided at the meeting.

### **Accountants Hear of Proposed Calendar Changes**

An address on proposed changes in the calendar, including a short history of calendar making, was given by Professor Ostlund of the University of Minnesota at a meeting of the Minnesota Society of Certified Public Accountants, March 27th, at the St. Paul athletic club.

A resolution recommending the adoption of a natural fiscal year by business and industrial concerns was unanimously adopted at the meeting.

### **Kansas City Accountants Discuss Auditors' Certificates**

A. B. Eisenhower, vice-president of the Commerce Trust Company, Kansas City, spoke on auditors' certificates at a meeting of the Kansas City chapter of the Missouri Society of Certified Public Accountants, February 13th, at the University club. C. W. Allendoerfer, vice-president of the First National Bank, also discussed the subject.

Remarks by members of the chapter followed the addresses, and it was found that in general the bankers and accountants were in agreement upon the examination necessary before certification of the financial condition of a business, and upon the type of certificate which is most desirable. Mr. Eisenhower illustrated his address with a number of certificates which in his opinion were unsatisfactory and of little value for credit purposes because of ambiguity or lack of definite statement showing that all important assets had been verified and giving the basis of their valuation in the balance-sheet. Some of these certificates indicated that the auditors had confined their functions to copying the balance-sheet from the client's books without any other verification. The bankers said that from their viewpoint auditors' statements are eminently desirable and it was their hope that use of certified statements will become more general. The fact

that bankers place great reliance on statements prepared by reputable and efficient accounting firms was brought out and it was made clear that the presentation of complete audited statements has a favorable effect upon the banker's decision when credit is required by the client. The discussion indicated that this imposes upon accountants an obligation to maintain a high standard in their work and to have certain minimum requirements regarding the extent of the examination and the manner in which the assets and liabilities are to be classified and valued before a certificate may be issued. It was said that in order to retain the confidence of the bankers it is necessary for the accountant to be able to say "No" to his client when that is necessary.

### **Retail Accounting Subject of New York Meeting**

The New York State Society of Certified Public Accountants, at the Waldorf Astoria hotel, New York, March 19th, listened to addresses on retail accounting by Ernest Katz and Hermon F. Bell. Mr. Katz, who is executive vice-president and controller of R. H. Macy & Co., spoke on the subject, "The accounts of a department store." He outlined the methods of organization, control and operation of a large department store and gave detailed explanation of some of the accounting problems arising out of the multitude of transactions in such an establishment.

Mr Katz said that reductions are the biggest expense of a department store. He pointed out that the introduction of the unit control system had lowered the percentage of reductions, had increased sales and had permitted a greater turnover. He spoke favorably of the standardized accounting systems used by large department stores. Each one of the more than 165 departments in the Macy store, he said, is run like a separate business. The books are closed fifty-two times a year. A perpetual inventory of all departments is kept day by day. Comprehensive statistics and graphic charts for each department are at the disposal of the management. Mr. Katz recommended that the certified public accountant and the accounting officers of a department store or any other business organization work together. He said that the relationship of the accounting function with the other

functions of the organization is most important.

Mr. Bell spoke on retail accounting from the point of view of the public accountant. He said that accountants should be careful to survey retail-accounting problems comprehensively rather than to give their principal attention to detail. The distinctive factors influencing the accounting procedure of retailers, he said, result in four controlling conditions. The first mentioned by Mr. Bell is departmental organization which he calls a basic element in merchandising policy and procedure, as well as to some extent in expense control. Daily audit including balancing of sales checks with cash and with charges made through the accounts-receivable division is another characteristic. A third is the system of merchandise control illustrated in the so-called retail method. The last distinctive condition is functional organization—usually threefold or fourfold—divided, for instance, under the merchandise manager, general superintendent, treasurer and controller, and the publicity and sales departments.

The service of public accountants in department stores, according to the speaker, consists largely of audit and review of accounts and the preparation of balance-sheets and operating statements, as well as tax returns. Mr. Bell said that, in accordance with the theory of auditing procedure wherein the accountant works from the general to the particular or from the financial statement back to supporting detail, in his opinion an audit of the accounts of a department store has hardly been commenced until a detailed comparative balance-sheet and a detailed comparative operating account have been prepared. These tentative statements, he said, should take the place of a prearranged audit programme as a basis for the verification of assets and liabilities and analysis of the items of income and expense. The speaker outlined the general procedure of such an audit and mentioned several of the problems which the auditor might encounter.

### **President of North Carolina Association Tours State**

George E. Wood, president of the North Carolina Association of Certified Public Accountants, arranged a tour of the state during the month of April. Starting from



Charlotte, Mr. Wood met accountants at Raleigh on April 2nd, and on the 3rd visited the University of North Carolina at Chapel Hill, to make arrangements for a meeting of the association there on May 10th, 11th and 12th. Accountants at Wilmington, Asheville and Greensboro planned to receive him during the following few weeks and his trip will end with attendance at a dinner of the Accountants club of Charlotte on April 28th.

### **Ohio Society of Certified Public Accountants**

The president of the Ohio Society of Certified Public Accountants has appointed the following committees for the year 1928:

*Membership:*

H. W. Cuthbertson, R. H. Gravett, D. S. Meaden, John Shotwell.

*Finance:*

R. A. Hurst, W. E. Langdon, Hugh E. Wall.

*Auditing:*

F. W. Fuller, C. E. Hubbard, H. B. Terry.

*Meetings:*

*Spring:*

D. D. Battelle, H. C. Miller, A. L. Peters.

*Fall:*

E. W. Breyer, W. A. Coy, J. H. Sibbison.

*Press and publicity:*

W. S. March, R. F. Mateer, C. C. McConkie, A. R. Porterfield, E. W. Wood.

*Accountancy education:*

Roy T. Bell, B. G. Graham, Frank R. Somers.

*Law enforcement:*

M. J. Arft, J. D. Cherrington, H. C. Slagle.

*Legislation:*

W. A. Coy, G. W. Eckelberry, E. A. Roden.

A change in the constitution and by-laws of the Ohio Society has been suggested to

restrict membership, requiring applicants to have had at least three years' practice as public accountants. A committee consisting of Hugh E. Wall and J. H. Sibbison has been appointed to consider the suggested changes in the by-laws.

The spring meeting of the society will be held at the Ohio State University, Columbus, May 18th and 19th.

### **Public-utility Financing Discussed at Accountants' Meeting**

The problems which confront the accountant, the lawyer and the banker in the refinancing and merging of public utilities were outlined March 23rd by Frank M. Hunter, former deputy attorney general and former chief counsel of the Pennsylvania public-service commission, in an address before the Philadelphia chapter of the Pennsylvania Institute of Certified Public Accountants at the Manufacturers' club. Mr. Hunter explained a number of factors of law and public policy which govern the utilities in these matters. He also illustrated these points by indicating how the public-service commission investigates the transactions to assure the public, the investor and banker that the refinancing and mergers are sound and in accord with public policy.

Walter L. Morgan led the discussion following the address. He pointed out the particular problems which confront the accountant in public-utility financings and mergers and praised the work and services of the accountant in bringing to light all facts necessary to a fair and impartial judgment of the transactions.

## **COURT DECISION**

### **Determination of Net Profits under Profit-sharing Contract**

In a case involving determination of net profits for purposes of a contract providing for a division of profits, the supreme court of Louisiana has handed down a decision containing rulings on several accounting matters, such as deduction of federal taxes as expenses and depreciation of machinery on appreciated values.

The text of the decision is as follows:

#### **SUPREME COURT OF LOUISIANA**

Monday, Feb. 13, 1928

*Herbert Homes v. James Buckley & Company, Ltd.*

Appeal from the civil district court, parish of Orleans, Percy Saint, judge.

ROGERS, J.

This is a suit for an accounting on a written contract of employment. The contract, which became effective December 1, 1915, is in the form of a letter dated September 3, 1915, addressed by the president of the defendant company to the plaintiff and accepted by him. It is couched in these words, viz.:

"..... I will pay you a salary of \$125.00 per month plus 5% of the net profits for the year up to \$8,500.00. For all net profits over and above \$8,500.00 per annum 50% of the excess net profit.

"The net profits, of course, are determined by the auditor of the company and are arrived at after usual deductions are made for all current expenses, including all salaries and the proper deductions for depreciation on machinery, fixtures and stock and for all bad accounts which are charged off yearly. This is what we have been doing in the past and what is the usual and only proper method.

"It must be understood that the salary of \$125.00 per month will be paid monthly, but no advances are to be made on profits before same are determined at the end of the fiscal period.

\* \* \* \* \*

"I have made it 5% to \$8,500.00 instead of \$8,000.00 for the reason that from now on rent has been reduced by \$300.00 a year by the landlord in return for improvements which I am now making in our store."

There is no controversy about plaintiff's salary which was subsequently increased to \$150.00 per month and regularly paid.

Plaintiff remained in the employ of the defendant until May 31, 1919, the end of its fiscal year, when he resigned, and the contract was terminated by mutual consent.

On June 25, 1919, the defendant company notified plaintiff in writing that its books had been balanced and there was due him \$658.53. Plaintiff refused to accept this amount, and instituted suit claiming a much larger sum as his percentage of the net profits during the period of his employment, after debiting him with the payments he had received from time to time on account thereof.

The defendant company denied liability for any amount whatever, and alleged that its books had not been finally audited and closed when it notified plaintiff that he was entitled to a balance of \$658.53; that upon the completion of the audit of its books, it ascertained that plaintiff was overdrawn in the sum of \$220.84, which it claimed by way of reconvention.

There were two hearings in the case. At the conclusion of the first hearing, the judge a quo appointed J. K. Byrne, a certified public accountant of New Orleans, to make an audit of the books of the defendant company with a view of ascertaining its net profits and the amount thereof due plaintiff under his contract.

The auditor appointed by the court duly filed his report, showing that plaintiff was credited on the books of the defendant company with \$455.81 in excess of the amount to which he was entitled. Both parties filed exceptions to the report, and, after taking additional testimony, the case was submitted. The judge a quo adopted the report, except in one particular, viz., the deduction of the federal income and excess-profits taxes from the gross profits in order to establish the net profits upon which the agreed percentage of plaintiff should be calculated. In accordance with this ruling, judgment was rendered in favor of plaintiff for \$3,032.13. The defendant company appealed, and plaintiff answered the appeal, praying that the amount of judgment be increased.

There are three questions involved in this case, viz.:

1. Are the federal income and excess-profits taxes paid by the corporation deductible before determining its net profits in which plaintiff is to share according to their contract?

2. Does the reference in the contract to the reduction of the defendant company's rent in consideration of certain improvements it agreed to make to the leased premises justify a credit to the plaintiff?

3. Is a depreciation charged on machinery prior to the contract properly made on its appreciated value before ascertaining the net profits, considering sound and replacement values?

1st, There is a disagreement in opinion between the witnesses for plaintiff and the witnesses for defendant as to whether the federal income and excess-profits taxes are properly deductible as expenses in determining the net profits of the business. We think, however, that the weight of the testimony supports the affirmative side of the question.

The tax annually exacted by the federal government on net corporate income means, simply, that every dollar of net profit earned by a corporation during the year must bear a certain charge for governmental purposes. It is immaterial whether such charge be designated as an expense or a profit-sharing tax, neither the profits of a corporation nor any one interested in its profits is immune from its operation. The federal corporate income tax is, therefore, an expense of the corporate business. The mere fact that the tax before its deduction is computed on the basis of the corporate profits does not alter its character. According to the rules of accountancy, the expenditure of money must be considered either as an asset or as an expense. The income tax is clearly not an asset. It must necessarily, therefore, be considered and treated as an expense. Where an employee who, in addition to receiving a stipulated salary, also receives, in the nature of a salary, a percentage of the net profits of a corporation, the net profits necessarily can not be determined until all expenses, including income tax, are deducted from the profits. And inasmuch as such additional compensation is to be measured by the net profits the employee has helped to make, his percentage must also be deducted before the tax is found. This is recognized to be the correct rule by the federal revenue law, which provides that in carrying on any trade or business all necessary expenses, "including a reasonable allowance for salaries or other compensation for personal services actually rendered," may be deducted from the gross profits in order to arrive at the net profits on which the income tax is to be computed. Sec. 214 of the revenue law of 1918, 40 St. 1066 (U. S. Comp. St. Ann. Supp. 1919, sec. 6336—I/8g. p. 1323). The effect of applying this rule is to reduce the corporate profits as well as to reduce the corporate income tax.

In the case of *Dulac Cypress Co. v. Houma Cypress Co.*, 158 La. 804, 104 So. 722, this court held that under a contract for the division of net profits, the federal income and excess-profits taxes were properly deductible from the earnings in order to ascertain the profits to be divided; net profits being the gain accruing on an investment after deducting the losses and expenses of business. We think the rule announced there is controlling of the issue involved here. It is in accord with the de-

cision in *Sevens v. U. S. Steel Corp.* 68 N. J. Eq. 373, 59 At. 905, that:

"Net profits of a corporation are the net gains which have been actually realized, and which could be quickly distributed without loss by a sale of the assets."

It is also supported by the rule announced by the supreme court of the United States in *Georgia Railway & Power Co. v. Railroad Commission of Georgia*, 262 U. S. 625, 67 L. Ed. 1144, viz.:

"The federal corporate income tax is to be treated as an operating charge, to be deducted in arriving at probable net profits, affirming *Galveston Elec. Co. v. Galveston* 258 U. S. 399 (66 L. Ed. 678) where it was said per Brandeis, justice:

"In calculating whether the five per cent. fare will yield a proper return, it is necessary to deduct from gross revenue the expense and charges, and all taxes which would be payable if a fair return were earned are appropriate deductions. There is no difference in this respect between state and federal taxes or between income taxes and others."

In the contract between the parties, it is expressly provided that the net profits are to be determined by the auditor of the company after the deduction of current expenses, for depreciation on machinery, fixtures and stock, and for bad accounts. No exception was made of the federal tax. From the inception to the termination of the contract, it was deducted from the annual profits, and plaintiff was settled with, apparently without objection, on the basis of the profits found after the deduction.

Our conclusion is, that the federal income and excess-profit taxes paid by the defendant corporation were properly deductible from its gross profits in order to determine the net profits upon which to predicate additional compensation of the plaintiff.

2nd. The defendant company expended \$1,228.20 for improvements to the leased premises for which the lessor allowed a reduction in the rent. The auditor of the lessee charged \$307.05, or one fourth of the total expenditure, as an item of current expense during each of the four years the property was leased at the reduced rental. The expert appointed by the court concurred in his opinion that the amount expended for the repairs was a necessary expense in the nature of rent and was properly deductible pro-rated over the period of the lease. He found, however, and so reported to the court that for the purpose of calculating the commission due plaintiff under his contract, he having conceded a reduction in commission from 5% on the net profits up to \$8,000.00 and 50% above to 5% up to \$8,500.00 and 50% above in lieu of saving \$300.00 on the annual rental, that only such part of the cost of the repairs pro-rated as exceeded \$300.00 was properly chargeable as an expense. Accordingly, he allowed plaintiff a credit of \$300.00 per year, which had been previously deducted, in computing the net profits on which his additional compensation was calculated. Defendant excepted to this part of the report, and plaintiff excepted to the allowance of only \$300.00 annually instead of \$307.05 annually. The court below affirmed the report, and, in doing so, used the following language, viz.:

"Complaint was made by the defendant that the matter of \$300.00 rent should not be used as an asset, but the contract was based upon a change in the rent, and was changed from \$8,000.00 to \$8,500.00 by reason of the reduction in the rent, and if the

gross amount upon which the employee was to receive five per cent. was changed and made a larger amount, because of the \$300.00 change, certainly he is entitled to the benefit of the \$300.00 change, as he was deprived of the \$500.00 benefit under the original contract."

We find no error in the judgment of the court below on this disputed point.

3rd. On this phase of the case the expert appointed by the court ruled in plaintiff's favor to the extent of maintaining a large part of his claim. His report shows that when he examined the books of the defendant company, he found that as a basis of the annual depreciation charge of ten per cent. the machinery, equipment and fixtures were entered at their new replacement value of \$12,227.25 instead of at their sound value of \$9,469.47. The excess valuation was, therefore, \$2,757.78, and in adjusting the annual net profits, the expert added ten per cent. of this amount, or \$275.78, to the amount charged off each year on the books of the defendant company to cover the depreciation of its machinery, equipment and fixtures. His action was approved by the court below. The plaintiff is satisfied with the judgment in this respect, and it is not seriously attacked by the defendant company. For our own part, we think it is correct.

The defendant company furthermore contends that the additional compensation due plaintiff under his contract should be subtracted as an item of expense from the amount of net profits found after the deduction of the federal taxes and the percentage agreed on should be calculated on the remainder. It appears, however, that no such deduction was attempted during the period of plaintiff's employment. The defendant company admits this, but urges that was because of its magnanimity. This particular claim was denied by the expert appointed by the court on the ground that the additional compensation, as shown by the books with full knowledge of the parties, was treated as a distribution of the profits. We do not find any error in this. The entries on the books of the defendant company and the settlements had from time to time in accordance therewith clearly reflect the understanding of the contracting parties. While the claim now urged on the part of the defendant company may serve a useful purpose by way of a defensive argument, since it was not asserted in its answer or reconventional demand, it affords no basis upon which a judgment can be rendered.

The expert appointed by the court found that plaintiff was credited with \$3,485.49 on account of commissions and that he had earned on said account \$3,029.68, the excess of credits over the debits being \$455.81. The defendant company, however, demanded by way of reconventional only \$220.84. In rendering judgment in its favor the court can not go beyond this amount.

For the reasons assigned the judgment appealed from is set aside, and it is now ordered that plaintiff's demand be rejected; it is further ordered that there be judgment in favor of James Buckley & Company, Ltd., plaintiff in reconvention, and against Herbert B. Homes, defendant in reconvention, in the full sum of two hundred twenty & 84/100 dollars (\$220.84) with legal interest thereon from judicial demand (November 14, 1919) until paid and for all costs of suit.

ST. PAUL, J. dissents. THOMPSON, J. takes no part.

## REVIEWS

JOHN R. WILDMAN—"PROFIT, DIVIDENDS AND APPRECIATION"

Article published in *Haskins & Sells Bulletin*, March, 1928.

Distinction between the establishment and realization of profits, circumstances in which dividends may be declared, and consideration of the question of appreciation on depreciating assets are the principal matters to which the writer gives attention.

While neither business practice nor law requires that profits must be realized in cash before a dividend based on them can be paid, Mr. Wildman says, it is sound business procedure to require that assets which comprehend the profits be reasonably certain of early conversion into money, so that the expenditure in dividends of a corresponding amount of cash will not interfere with the prompt payment of current creditors. The establishment of profits—that is, possession of readily convertible receivables of a value greater than cost—may warrant declaration of a dividend, the writer says, and actual payment of the dividend may be made when the necessary cash can be properly extracted from the business. Borrowing to pay dividends, he implies, may be quite sound, as it is largely a question of judgment and credit, although generally the practice should be discouraged.

Subject to certain qualifications, the writer says, any surplus may be partitioned by means of a stock dividend, but only earned surplus, resulting from established profits, may be distributed in cash. He adds that surplus derived from reduction of a liability, from a reserve previously created of earned surplus, or from apportionment of the consideration received for capital stock with the purpose of equalizing the rights of shareholders to future dividends, may be made the basis of cash dividends.

Appreciation resulting from revaluation of depreciating property, often known as capital surplus, is sometimes made subject to charges for losses in operations or for adjustments in values of assets other than property, a procedure which, Mr. Wildman says, ignores the fact that future depreciation of property must be based on appraised values and the amount of the increase in value over cost will subsequently be required to absorb the depreciation on the increased value. Otherwise the depreciation on appraised values must be recovered out of future earnings.

It is the writer's conclusion that the increase of appraised value over cost should be credited to a reserve rather than to capital surplus. If full depreciation is thereafter recovered out of future earnings an amount equal to the depreciation on appreciation will pass from the reserve for appreciation to earned surplus. If the depreciation relating to cost of the asset only is charged to operations, the reserve will absorb the remainder corresponding to appreciation.

Appreciation on non-depreciating assets, Mr. Wildman says, may be credited to surplus, but not to earned surplus. Appreciation in no way establishes a profit, as it may never be realized. Mr. Wildman concludes the article with a statement of the pos-

sible disadvantages of the disposal of capital surplus in stock dividends.

C. OLIVER WELLINGTON—"WHAT CAN WE DO TO INCREASE NET PROFITS"

An address delivered at a meeting of the Cost Association of the Paper Industry, New York, February 22, 1928.

The speaker said that in the paper industry, as in many others, there is a possibility of over-production which is apparent at present in some cases. Over-production results in intense competition, and necessitates more than ever an accurate knowledge of costs and sound sales and manufacturing policies. Mr. Wellington mentioned as an illustration the specific instance of a mill which made a profit in an unusually poor year by utilizing only one half of its manufacturing equipment and estimating its budget and costs on the basis of the smaller production expected. No orders were taken at prices below the costs computed on the basis of the reduced activity.

Mr. Wellington intimated that in his opinion it is not good business to sell below cost. Reduction in selling price, he said, does not increase total consumption appreciably. Every ton of paper forced on the market in excess of what the market can absorb, he said, simply postpones the time when a reasonable balance will be struck between supply and demand, with consequent profitable prices. The manufacturer who insists on 100 per cent. production when the market is not in a condition to absorb his output is injuring himself and the entire industry.

Proper costs and a reasonable budget were the means of profitable activity recommended by the speaker. An effective budget, he said, should include not only the manufacturing costs, but selling and administrative costs, and should compare the sales which can reasonably be expected with the costs necessary under that sales programme. Such a budget gives executives full control of the business and gives it to them in advance.

Mr. Wellington said that the paper industry had already developed a predetermined or budget cost system applying largely to manufacturing costs, but he emphasized the necessity of a complete budget including selling and administrative costs and financial items.

He said that in some cases it is advantageous to adopt a plan of predetermined costs by grades, weights, colors, etc., rather than by the lot-cost method.

He suggested that the profit item to be added to the cost should be determined as a percentage of the conversion costs. He also suggested that commissions of salesmen be based on profits resulting from their efforts rather than upon sales directly. He said that insufficient attention is sometimes given to steam and power costs of a plant, and he made suggestions of methods for reducing waste in finishing operations. Mr. Wellington emphasized the desirability of the comparison of figures, not only within a single mill but also of one mill with another.

PERCIVAL F. BRUNDAGE—"THE PLACE OF ACCOUNTANCY IN BUSINESS"

Article published in *Spotlights on Commercial Education*, April, 1928.

The significance of the constructive function of the public accountant and the contribution of accountancy toward general realization of the importance of business ethics are emphasized by the writer. Mr. Brundage distinguishes between the mechanical routine, which was once considered a large part of the accountant's duties, and such services to business as preparation of financial statements and reports, cost accounting, tax practice, special examinations, budgeting and financial counsel, which are responsible for the definition sometimes applied to accountancy, "the science of business." The writer differentiates between the three chief divisions of accounting activity—public practice, private employment and instruction.

The necessity for complete and accurate financial statements in modern business and industry has given accountancy the opportunity to exert great influence on ethical standards, and accountants have made possible the periodic publication of financial information which reveals to investors, credit organizations and stock exchanges the true condition of a concern, according to the writer.

Mr. Brundage concludes his article with an outline of the requirements for professional recognition in accountancy.

J. PRYSE GOODWIN—"COMMERCIAL ARBITRATION"

An address delivered at a meeting of the New York Rotary Club, March 8, 1928.

The use of arbitration for the settlement of commercial disputes saves time, money, credit, publicity and friendship, said the speaker. To illustrate the delay and waste in the settlement of business disputes by court procedure, Mr. Goodwin mentioned that there are approximately 26,000 cases on the calendar of the supreme court of New York County and that the court machinery was organized to handle approximately only 8,000 cases a year. He said that consequently it takes an average of three years to obtain a hearing and an additional two years if there be an appeal. He cited several cases which had been settled by arbitration in a corresponding number of weeks. Mr. Goodwin said that more than 300 trade and professional organizations are now affiliated with the American Arbitration Association, and are informing their members of the advantages of arbitration in commercial disputes.

## HERE AND THERE

Elias Berger, New York, announces the removal of his offices to 1440 Broadway.

Joseph Froggatt & Co., Inc., New York, announce the removal of their offices to 74 Trinity Place.

Announcement has been made that Joel Hunter, Jr., will continue the practice of the late Joel Hunter as a member of the firm of Joel Hunter & Co., 1006 Atlanta Trust Co. Building, Atlanta, Georgia.

G. Arthur Jackson, Paul C. Zaenglein and Raymond V. Ellis, members of the Rochester Certified Audit Corporation, 31 Exchange street, Rochester, New York, have dissolved the corporation and will continue the business at the same address, as a copartnership to be known as Jackson, Zaenglein & Ellis.

The firm of Karasick, Reznikoff & Gallin has removed its offices to 11 West 42nd street, New York.

The firm of Paul L. Loewenwarter & Co. has removed its offices to the French building, 551 Fifth avenue, New York.

Joseph Miller announces the removal of his offices to 1457 Broadway, New York.

J. Lee Nicholson & Co., New York, announce the removal of their offices from the Woolworth building to the Park Murray building, 11 Park Place.

C. R. Phelps, O. H. Maschek and N. O. Richardson announce the formation of a partnership under the name of Phelps, Maschek & Richardson, with offices in the Adams building, Port Arthur, and the Goodhue building, Beaumont, Texas.

The Accounting Service and Audit Co., Baltimore, Maryland, announces the removal of its offices to 1001-1002 Court Square Building, Calvert and Lexington streets.

The following paragraphs report activities of members and associates of the American Institute of Accountants:

Andrew Blass has recently been appointed a member of the banquet committee of the Pittsburgh chapter of the National Association of Cost Accountants.

On March 13th Ernest Crowther, Pittsburgh, spoke at a meeting of the Credo Club, which is a credit men's association of that city, on "The soft-coal situation."

Henry B. Fernald, New York, delivered an address entitled "The financial report of a mining company—its contents and meaning" before the American Institute of Mining and Metallurgical Engineers in New York on February 22nd, and he presided at a meeting of the New York chapter of the National Association of Cost Accountants on March 13th at which a discussion regarding payroll accounting methods took place.

William P. Field is president of the Anglo-American Welfare Federation of Cuba.

J. Hugh Jackson, Palo Alto, California, addressed the Downtown Business Men's Association at Los Angeles, March 20th, on "Internal controls in management." He spoke before the Beta Alpha Psi accounting fraternity of the University of California, March 22nd, on "The college man's start in accounting" and to the Kiwanis Club of Santa Cruz, March 27th, on "What business education is doing for business." An article by Mr. Jackson, entitled "This thing, success," appeared in *The Epworth Herald*, January 7, 1928.

In February, C. L. Kelly, Eugene, Oregon, addressed the Life Underwriters Association of his city on "The cost of life insurance," "Actuarial calculations," and "Contracts in life insurance." On March 19th, Mr. Kelly spoke to the Advertising club on "Accounting for retailers."

At a meeting of the Metropolitan Council of Exchange Clubs in Rockville Centre, Long Island, on February 17, 1928, John T. Madden spoke on "Business and education," and at a meeting of the United States Trust Company Club on February 23rd, he de-

livered an address entitled "The value of training in accounting."

Walter L. Morgan, Philadelphia, is acting as chairman of the committee on publicity of the local chapter of the Pennsylvania Institute of Certified Public Accountants.

George S. Olive spoke on "Income tax resulting from real-estate transactions," at a meeting of the Real Estate Board in Indianapolis on March 1st. Mr. Olive has been made a member of the membership committee of the Indianapolis Chamber of Commerce and is serving on the executive committee of the Industrial Foundation of that city.

*The Daily Recorder*, Sacramento, California, for February 28th, contained an article by Charles H. Petersen, San Francisco, entitled "Avenues of coöperation between accountants and attorneys."

A discussion of "General principles of financing industries," by G. Harvey Porter, Baltimore, appeared in the *Annals of Real-estate Practice* for 1928.

Carl V. Starkloff, Baltimore, delivered an address entitled "The present credit situation of the retail furniture instalment dealer from the viewpoint of the banker," before the Baltimore Furniture and Bedding Manufacturers Association on March 26th.

On March 5th, H. M. Thomson, Los Angeles, addressed a class of the American Institute of Banking, of that city, on "Cost systems—their characteristics."

Charles B. Tompkins, Los Angeles, has been appointed secretary of the Los Angeles Altrurian Club.

Walter C. Wright, Hollywood, California, addressed the Los Angeles chapter of the National Association of Cost Accountants, January 24th, on "The philosophy of the balance-sheet."

J. L. Carey, assistant secretary of the Institute, spoke on accountancy as a career before students at Rahway High School, Rahway, New Jersey, April 13th.

# Bulletin Supplement

April 18, 1928.

## To Members and Associates of the American Institute of Accountants:

At the meeting of council, April 9, 1928, the board of examiners recommended the election of 8 applicants for membership and 6 for associate membership, who had already passed the Institute's examinations for C. P. A. certificates in coöperating states. Four applicants who had passed other examinations acceptable to the board were also recommended for membership. The election of 2 applicants for membership was recommended on the basis of oral examination by the board. Three associates were recommended for advancement to membership.

The council approved the recommendations of the board.

Following is a list of those recommended for election:

### *For Advancement to Membership:*

J. Fred Lynn, Chicago  
Amos L. Moreton, Los Angeles  
Flay L. Murphy, Chicago

### *For Admission as Members:*

Robert L. Chestnutt, Chicago  
William M. Fanning, New York  
Fritz W. Graff, Cleveland  
Ernest E. Griffiths, Honolulu, T. H.  
John L. Harvey, New York  
George C. Hurdman, Jr., New York  
James W. Jones, Houston  
Theodore W. Mohle, Dallas  
Clyde A. Morwood, Springfield, Missouri  
James C. Park, New York  
Lawrence H. Pierce, Salt Lake City  
William E. Poole, Jr., Chicago  
Edward Ramsey, Indianapolis  
Frederick S. Staples, Los Angeles  
Walther Wolf, San Francisco

### *For Admission as Associates:*

John P. Begley, Omaha  
Benjamin L. Enloe, St. Louis  
Homer G. Graham, Miami  
Francis C. Martin, Boston  
Philo R. Zimmerman, Seattle  
Henry F. Zoelck, Chicago

If no protest is received by May 5, 1928, against the election of any of the above applicants the president will declare them elected.

A. P. RICHARDSON, *Secretary*.

# BULLETIN

OF THE

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SERIES B, No. 49

### Institute Representative Presents Recommendations on Tax Bill

At a hearing of the senate finance committee on the 1928 revenue act, April 10th, James Walton, of Pittsburgh, representing the committee on federal legislation of the American Institute of Accountants, presented recommendations concerning administrative features of the revenue bill then before the committee. Mr. Walton filed a brief with the senate committee dealing with the following questions: retroactivity; corrective legislation concerning the board of tax appeals; the question of claim for abatement acting as a stay of the statute of limitations; the proposal to repeal certain sections of prior acts effective to date of original passage; the proposal to validate invalid waivers; liability of transferees and fiduciaries in the case of transferred assets; additional tax on reorganizations retroactive to December 31, 1920; computation of depreciation on property acquired prior to March 1, 1913, from date of acquisition, as part of the basis for determination of gain; special tax on personal holding companies; evasion of surtax; consolidated returns; instalment sales, and the delegation of legislative powers to the commissioner.

Mr. Walton orally amplified several of the subjects included in the brief. He said that the outstanding objection to the new bill was its retroactivity and that this feature was particularly undesirable because the retroactivity was of varying dates.

He spoke next of the board of tax appeals, saying that it would take the board seven years to dispose of the cases now before it, without regard to future appeals. Mr.

Walton said that much time is wasted before the board in arguments on questions of jurisdiction and constitutionality, matters which in his opinion legally should not come before it. He also recommended that the federal courts, in the option of the taxpayer, receive some of the appeals now going to the board, in order to relieve congestion. Appeal might be made on petitions of the taxpayer, Mr. Walton suggested, instead of as a matter of statutory right. Upon presentation of evidence that the taxpayer had a meritorious defense against assessment the court might have authority to require him to file a bond to insure payment of the tax if the decision were against the taxpayer. In that way the board might be relieved of many cases when the taxpayer is unable to pay the tax regardless of the decision.

Mr. Walton also mentioned the new provision that filing a claim for abatement be deemed to have stayed the statute of limitations. He said that such a law would affect previous court decisions on the subject and he criticized any policy whereby the commissioner could obtain retroactive legislation to uphold him when the courts have ruled against him. Mr. Walton said that great confusion would result from such a provision.

The Institute's representative was allowed one-half hour for oral discussion, in addition to filing his brief as part of the record. Toward the end of the time he referred to other points elaborated in the brief.

### Regional Meeting of Institute

A meeting of the midwest region of the American Institute of Accountants will be held June 7th at the Union League club,



Chicago. A large attendance is expected. The region comprises North Dakota, South Dakota, Illinois, Iowa, Kansas, Kentucky, Minnesota, Missouri, Nebraska and Wisconsin.

Arrangements may be made at the club for accommodations for out-of-town members or their guests. The Illinois Society of Certified Public Accountants has offered an invitation to those attending the meeting to play in the society's annual golf tournament at the Briergate golf club, June 8th.

All persons interested in accountancy are cordially invited to attend the meeting. It is not confined to members of the Institute.

The regional committee is as follows: Frederick B. Andrews, Illinois (chairman); E. M. Lynn, Missouri; Charles G. Harris, Kentucky; E. M. Worthington, Iowa; Herbert M. Temple, Minnesota; Gladstone Cherry, Wisconsin; John M. Gilchrist, Nebraska; Stanley Spurrier, Kansas.

### **Spring Meeting of Northern Ohio Chapter**

The Northern Ohio chapter of the American Institute of Accountants held its regular spring meeting at the Hotel Cleveland, Cleveland, on the evening of April 26th. About forty members and guests were present.

W. P. Moonan, president of the chapter, called attention to the annual meeting of the American Institute of Accountants to be held at Buffalo next September, and expressed the hope that all members of the Cleveland chapter would be present.

I. Walter Sharp addressed the meeting on the subject of the present corporation law of Ohio and reviewed the law section by section. He called attention to the chief variations between the old and the new statutes and to the points which he considered in need of amendment.

Mr. Sharp was followed by Paul Bickel who discussed amendments to the law proposed by a committee considering the subject. Harold Worthington also gave his opinions on the same matter. General discussion ensued, in which M. R. Dickey, Carl H. Nau, Charles Follett and C. N. Brook participated.

The discussion was followed by a vote, at the suggestion of Mr. Bickel, on the

question of amending the law so as to authorize corporations to pay dividends out of current profits at a time when the corporation's capital has been impaired by prior losses. The members of the chapter voted unanimously against the proposal.

As a result of the meeting representatives of the Bar Association have requested that a committee of the Institute chapter be appointed to review the Ohio corporation law thoroughly, and to report to the lawyers' committee recommendations for amendment.

### **Institute Officers Visit Florida Accountants**

The president and the secretary of the American Institute of Accountants in company with Walter Mucklow, president of the Florida Institute of Accountants, attended meetings of accountants in Florida in the latter part of April.

On Wednesday, April 18th, the officers were guests of the Jacksonville chapter of the Florida Institute at luncheon. On the following morning they visited the University of Florida at Gainesville, where Mr. Mucklow delivered an address on "The relation of the accountant and the business man," which is reviewed elsewhere in this *Bulletin*. Messrs. Ruckstell and Richardson also made brief remarks to the students, following the morning chapel service.

April 20th and 21st were the dates of the quarterly meeting of the Florida Institute at St. Petersburg. About 170 accountants and their guests attended the two-day session. The Rev. Theodore K. Finck opened the meeting with invocation and C. J. Maurer, mayor of St. Petersburg, delivered the address of welcome. At the annual banquet Mr. Ruckstell, the principal speaker, told of the progress in the accountancy profession resulting from the organization of accountants and the enlargement of the scope of their services. Byrd M. Latham acted as toastmaster.

At the business sessions of the convention the constitution and by-laws of the Florida Institute were thoroughly discussed, section by section.

There was a discussion on "Inventories and the auditor" led by Gordon M. Dickinson.

At the second day's session James B. Moore spoke on "Coöperation." W. R. La Baw delivered an address on "The immediate future," and the secretary of the American Institute reviewed the development of the Institute.

On Sunday, April 22nd, Messrs. Ruckstell, Mucklow and Richardson proceeded to Miami where on the following evening a meeting of the Miami chapter was held at the McAllister hotel. Lewis Oates presided. Mr. Ruckstell spoke on the future of accountancy and the secretary of the Institute discussed its code of ethics.

### **Recent Election of Applicants**

At its meeting on April 9th, the council of the American Institute of Accountants approved the recommendation of the board of examiners for the election of certain applicants for membership and associate membership, and the advancement of three associates to membership. In the absence of protest the president declared these applicants duly elected as of May 5th. Their names are as follows:

#### *Advanced to Membership:*

J. Fred Lynn, Chicago  
Amos L. Moreton, Los Angeles  
Flay L. Murphy, Chicago

#### *Admitted as Members:*

Robert L. Chesnutt, Chicago  
William M. Fanning, New York  
Fritz W. Graff, Cleveland  
Ernest E. Griffiths, Honolulu, T. H.  
John L. Harvey, New York  
George C. Hurdman, Jr., New York  
James W. Jones, Houston  
Theodore W. Mohle, Dallas  
Clyde A. Morwood, Springfield, Missouri  
James C. Park, New York  
Lawrence H. Pierce, Salt Lake City  
William E. Poole, Jr., Chicago  
Ellwood Ramsey, Indianapolis  
Frederick S. Staples, Los Angeles  
Walther Wolf, San Francisco

#### *Admitted as Associates:*

John P. Begley, Omaha  
Benjamin L. Enloe, St. Louis  
Homer G. Graham, Miami  
Francis C. Martin, Boston  
Philo R. Zimmerman, Seattle  
Henry F. Zoelck, Chicago

### **Entertainment of President by Western Accountants**

Details have been received concerning the meetings of accountants in Portland,

Seattle and Spokane at which John R. Ruckstell, president of the American Institute of Accountants, was guest of honor during March. Mr. Ruckstell's remarks at the several meetings were summarized in the April issue of the *Bulletin*.

Mr. Ruckstell was entertained at luncheon in Portland by John P. Dawson on March 25th. A. R. Sawtell, president of the Oregon Society of Certified Public Accountants, was also present at the luncheon, which was served at the Portland hotel. On the evening of the same day the Oregon State Society of Certified Public Accountants gave a banquet in honor of Mr. Ruckstell at the Arlington club. Following Mr. Ruckstell's address, J. G. Gillingham spoke on the work of a receiver in bankruptcy and Arthur Berridge delivered an address on the ideals of the public accountant. James M. McConahey spoke on the advantages of membership in the American Institute of Accountants. About forty-five practising accountants were present and the meeting concluded with an open discussion.

On March 27th Mr. Ruckstell was entertained by the Washington Society of Certified Public Accountants at its weekly luncheon meeting at the Arctic club, Seattle, and that evening a banquet was given in his honor at the Ranier club. About seventy-five accountants and bankers were present. Professor Carl S. Dakan, of the college of business administration of the University of Washington, spoke on the content of financial statements from the banker's point of view, with particular reference to statements giving effect to proposed financing. His talk led to an animated discussion.

J. P. Robertson, president of the Washington society, presided.

On Friday, March 30th, Mr. Ruckstell visited the Spokane chapter of the Washington Society of Certified Public Accountants, whose guest he was at luncheon. A round-table discussion of various subjects took place.

About twenty-five people were present at the dinner that evening at the Spokane City club, given in Mr. Ruckstell's honor. V. D. Allen, president of the chapter, presided and Mr. Ruckstell was the principal speaker.

## **Independent Audit Required of California Investment Trusts**

Rules governing the organization and operation of investment trusts in California have been formulated by the corporation commissioner of the state, after months of study and deliberation.

Among the requirements recently announced is a stipulation that each investment trust must submit semi-annually to the state corporation department a certified financial report showing assets and liabilities, including all contingent liabilities, and a detailed profit-and-loss statement for the period. It is said that the report must be prepared by an independent certified public accountant and must show whether the securities owned are carried at cost or market price. The reports must be sent to all shareholders or certificate holders of the trust.

Another rule provides that the company must submit semi-annually to all shareholders or certificate holders a list of all securities owned during the period, a copy of which must be filed with the department.

No more than five per cent. of the funds of the trust may be invested in any one company. It is also stipulated among other things that expenses, commission or discount incurred in the sale of securities shall be written off as quickly as possible in accordance with sound accounting practice.

According to the new regulations, organizers of an investment trust shall have subscribed and paid in not less than twenty per cent. of the initial paid-in capital. It is also provided that no trust shall create any temporary indebtedness in excess of fifty per cent. of its current assets.

There are other regulations prescribing the manner of operation, conditions under which dividends may be declared, etc.

## **Accountant Proposes Legislation to Protect Investing Public**

J. G. Gillingham, a member of the American Institute of Accountants and a certified public accountant, who has acted as temporary receiver, receiver and finally trustee for creditors in the bankruptcy of an Oregon brokerage firm, has suggested legislation prescribing that financial statements filed with the state officers be prepared by certified public accountants.

The *Oregon Voter* of April 7th contains an article on corrective proposals made by Mr. Gillingham at a recent meeting of the Oregon Society of Certified Public Accountants. He urged that a law be passed requiring that all corporations, copartnerships or individual persons required to make a report of financial condition to either the corporation commissioner, superintendent of banks or any other state commissioner or department, should be compelled to submit a financial statement made by a certified public accountant, and that these C. P. A. reports be filed as public documents, and not merely retained by the audited firms.

The article, in commenting on Mr. Gillingham's suggestions, says that accountants naturally would approve of such regulations, which would increase the demand for their services. However, the writer expresses hearty approval of the proposal to the extent that it would check dishonorable failures of financial institutions, which he says have increased in Portland in recent years.

"It happens that C. P. A.'s are the only people whose financial analyses are accepted as accredited reports," the article continues, and the writer says that it is a commendable act of accountants to take the lead in proposing remedial legislation. Accountants are in the best position to offer constructive criticism of the laws on such subjects, the article says.

## **Honors Courses in Accounting at Syracuse University**

Professor George E. Bennett, head of the department of accounting at the college of business administration, Syracuse University, has suggested the inauguration of what are called "honors courses" in accounting.

It is hoped that such courses in cost accounting, auditing, systems and problems will be authorized by the university senate. The curricula would be of an advanced character, requiring a background in elementary principles and the courses would be available only to junior and senior students majoring in accounting. No lecture or recitation work in the accepted sense would be required under the plan. Classes would be scheduled as usual but honors students would present themselves only at times when they required the assistance of the professor, who would devote the time to conference with individual students on their problems. The

courses would consist almost entirely of the solution of specific problems and would be, therefore, particularly adaptable to instruction under the honors method. The satisfactory solution of specified numbers of problems would determine the grade which a student might receive.

The accounting department at Syracuse has also undertaken a special study on the subject of internal check, the prevention and curtailment of irregularities in accounts. It is said that there is a scarcity of published material on the subject and the results of the department's research may be published in book form. Several seniors have done research work on the topic in preparation for theses. The scope of the study has been generally based on the following outline: relation of system control to accounting errors and fraud; legal distinctions and limitations in application; the governing principle of charge and discharge; classification of business transactions, both external and internal; application to classes of business transactions.

### **Appointment to Massachusetts Board of Accountancy**

Charles F. Rittenhouse has been appointed by Governor Fuller as a member of the Massachusetts board of registration of certified public accountants, for a term of five years, succeeding George L. Bishop.

### **Advantages of Farm Accounting**

The report of an owner and operator of a dairy farm in Wisconsin to the agricultural commission of the American Bankers Association is an interesting commentary on the advantages of accounting to farm enterprise. The farmer said that he had kept careful accounts from the beginning, but soon found that his system was not sufficient for all purposes. His records did not take into consideration improvements,

growth of live stock, or depreciation. Since 1910, he said, he has kept complete accounts on the accrual basis and has had no difficulty with the maintenance of the system. The advantages of this procedure, he said, are facility in making income-tax reports, possibility of an effective budget system, and the establishment of a trustworthy basis for credit.

### **Accountant Addresses College Students**

Archie M. Peisch of Hanover, New Hampshire, at the request of the special committee for placements of the American Institute of Accountants, spoke at the University of Vermont and at Middlebury College during the month of April. In both addresses he outlined the nature of professional practice and told the plan of the bureau for placements of the Institute to attempt to find positions with accounting firms for qualified college graduates.

Mr. Peisch has made arrangements to visit the University of New Hampshire in the near future.

### **Engineers to Standardize Mathematical Symbols**

The American Engineering Standards committee has announced the completion of the first step in the programme of unification of the scientific and engineering symbols and abbreviations used in engineering and industry. The initiation of the project of unification was undertaken by the standards committee in 1923. Fourteen national organizations have participated in the work.

The approved mathematical symbols include those for arithmetic and algebra, elementary geometry, analytic geometry, trigonometric and hyperbolic functions, calculus, etc. An effort was made to select from symbols already in use those which are most clearly understood and least likely to lead to confusion with other symbols.

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Professor Roy B. Kester, of Columbia University, delivered an address on "Research as applied to accounting practice" at a meeting of the Eastern Commercial Teachers Association, New York, April 7th.

J. B. McCabe was designated as a special delegate of the North Carolina Association of Certified Public Accountants to attend a bankers' convention held at Pinehurst, May 2nd, 3rd and 4th.

## STATE LEGISLATION

### **Virginia Law Punishes Fraud in Obtaining State Certificate**

Virginia senate bill No. 32, which has become chapter 95 of the law of 1928, is intended to punish fraud in obtaining a state certificate related to the practice of professions. The text of the act is as follows:

An act to amend and re-enact an act, entitled an act to prevent and punish fraud in the procurement of a certificate, licence, or permit, from a state board, or other body, charged with the duty of examining persons desiring to engage in or practise certain businesses or professions, approved March 21, 1924.

1. Be it enacted by the general assembly of Virginia, That an act entitled an act to prevent and punish fraud in the procurement of a certificate, licence, or permit, from a state board, or other body, charged with the duty of examining persons desiring to engage in or practise certain businesses or professions, approved March twenty-first, nineteen hundred and twenty-four, be amended and re-enacted so as to read as follows: That it shall be unlawful for any person fraudulently to procure, or assist another to procure, a certificate, licence, or permit, from any state board, or other body, charged by law with the duty of examining persons desiring to engage in or practise a business or profession for which a certificate, licence, or permit, is required by law from such board or body, by giving to, or receiving from, any person any information, oral, written, or printed, during the conduct of such

examination, which is intended to, or will, assist any person taking such examination in passing the examination and procuring the required certificate, licence, or permit; and it shall also be unlawful for any person, other than a member or officer of such board, or body, to procure, or have in his possession, prior to the beginning of such examination, without written authority of some member or officer of such board, or body, any copy or copies of the questions, or any of them, intended to be used by such board or body, conducting such examination, or to receive, or furnish to any person taking such examination, prior to or during such examination, any written or printed memorandum or information, purporting to be answers to, or aid in answering, such questions; and it shall also be unlawful for any person to attempt to fraudulently procure any copy, or copies, of the questions, or any of them, intended to be used by such board, or body, conducting such examination, or the answers to such questions, or any of them (and the promise or offer of any valuable, or other, consideration to a person having access to said questions, or answers, as an inducement to procure for delivery to the promisor, or any other person, a copy, or copies, of said questions, or answers, or any of them, shall be deemed an attempt under this section). If said examination be divided into separate sections, each of said sections shall be deemed an examination within the meaning of this act.

2. Any person violating the provisions of this act shall be guilty of a misdemeanor, and upon conviction thereof shall be punished by a fine of not less than fifty, nor more than one hundred, dollars, or by imprisonment in jail for not more than thirty days, or both in the discretion of the court.  
Approved March 5, 1928.

## NEWS OF LOCAL SOCIETIES

### **California State Society of Certified Public Accountants**

#### **LOS ANGELES CHAPTER**

"Relations between credit men and accountants" was the subject of an address by J. Harry Tregoe, professor of economics at the University of Southern California, and former secretary and general manager of the National Credit Men's Association, at a meeting of the Los Angeles chapter of the California State Society of Certified Public Accountants, April 17th. Mr. Tregoe stressed the importance of high standards for professional accountants in rendering to the public correct financial statements. He said that the character of men within a profession governs its standing, and showed

how the statement is true when applied to accountancy.

Walter K. Mitchell, chairman of the special taxation committee, presented a report containing recommendations to be presented to the governor's committee on taxation.

May 14th was chosen for the date of the annual meeting of the chapter.

#### **SAN FRANCISCO CHAPTER**

At a meeting of the San Francisco chapter of the California State Society of Certified Public Accountants March 20th, Henry Rand Hatfield, professor of accounting at the University of California, delivered an address on "Some recreations of an accountant." The object of the meeting was to extend a welcome to successful candidates for the California C. P. A.

certificate at the November, 1927, examinations. Seventeen candidates were present and one of them, A. J. Carson, spoke on his impressions of the examinations.

### **Connecticut Society Publishes Bulletin of Information**

Bankers, lawyers, corporation officers and others have received the first issue of a bulletin published by the Connecticut Society of Certified Public Accountants. The bulletin is the first of a series planned by a publicity committee which the president of the society was authorized to appoint at a meeting on January 25th. The committee is composed of Charles F. Coates, chairman, Walter A. Musgrave, Louis Perlysky, Lewis Sagal and George R. Young. The object of the bulletins, which will probably be issued quarterly, is to inform the general business public of the scope of services offered by certified public accountants.

The first issue contains a definition of the certified public accountant, his general training and the requirements which must be fulfilled to obtain the certificate. It includes a brief statement of the public accounting field and a more detailed explanation of the accountant's function in auditing, in design and installation of accounting systems and as business and tax advisor.

### **Massachusetts Accountants Hear of Educational Experiment**

R. G. Walker, professor of accounting at the Harvard graduate school of business administration, addressed the Massachusetts Society of Certified Public Accountants on "Some experiments in accounting education," at a meeting held April 23rd.

Professor Walker said he felt that the work in educational institutions today would be a determining factor in future accounting practice and development. He mentioned an interesting experiment during the last year, consisting of a course in accounting at the Harvard law school. Only two other law schools, he said, in the country have ever conducted accounting courses—those of Columbia and Chicago Universities. Professor Walker felt that no other study gave a better understanding of the coördination of business and he said he had tried to give his pupils some sense of the auditor's

instinct, that is, the ability to analyze figures and decide their meaning and how they fit into the business structure. He had used what he called the "dynamic" or "operating" approach rather than the balance-sheet viewpoint, which was more or less of an experiment and with which not all his confrères agreed. Professor Walker said his remarks applied only to his own personal opinions. He said that he conducted his course largely by discussion of a series of cases. A case, he said, was practically a page out of life and he had attempted to combine a judicious mixture of business cases and law cases. Professor Walker then presented a number of sample cases such as he had given his students:

1. One of the partners in a firm, under the partnership agreement, was to receive a graduated compensation based on profits. At the end of the period covered by his agreement, a large portion of the sales had been uncollected and were represented by receivables. The court ruled in this case that, in the absence of a specific agreement, his share of the profits should be computed on a cash basis rather than an accrual basis. This decision was reached partly because of the court's predilection for the cash basis and partly because of the difficulty of ascertaining an adequate allowance to make for uncollectable accounts.

2. The directors of a corporation had declared dividends out of profits resulting from compound interest on notes receivable, neither the interest nor principal of which had been collected. The court held that the directors were liable for an ultra vires act.

3. The stockholders of a corporation endeavored to force the directors to pay dividends where locomotives had been sold at a substantial profit but the proceeds were carried as receivables and had not been collected. The court held that the directors had acted properly in not paying out dividends in this case.

4. The stockholders of a corporation, which was in liquidation, had sued the directors for making an illegal declaration of dividends when the corporation had large current receivables which on liquidation realized only thirty cents on the dollar. The court, however, held that the directors were within their rights inasmuch as the concern at that time was a going business and they were not required to consider the possibility of a forced liquidation and a resulting decrease in value.

5. Sales orders booked for four months' future delivery were entered on the books although the merchandise had not as yet been put in process. Professor Walker stated that any sales short of an actual exchange of merchandise for cash, property, or receivables were too nebulous to form the basis for determining profits.

6. A company manufacturing submarines at a fixed price declared dividends out of current earnings without taking into consideration that the accumulated cost of the submarines to that date

exceeded the selling price. The directors were held liable on account of an ultra vires act.

Professor Walker then discussed the base stock inventory method of the National Lead Company and the decision in the Verner case, in which an English court held that the company could declare dividends out of operating profits in spite of greater capital losses. A similar case, he said, is recorded on the Tennessee statutes whereby the directors of a corporation were held to have properly declared preferred dividends on the preferred stock out of operating earnings, although they had lost approximately \$2,000,000 in trading on margin in stock, which was offset on the books by an appreciation of intangibles of approximately an equal amount. The judge said that the courts had frequently held that a corporation may write up its assets to sound values.

Professor Walker's remarks and cases aroused a great deal of interest and a number of questions were asked. He said that, in his opinion, the difference between the operating and balance-sheet approach was largely a question of emphasis, but to him it appeared to be more reasonable to center attention on the operations and change from period to period with resulting effects on the balance-sheet, than to start from the statement of assets and liabilities.

### **Minnesota Accountants to Propose New Law**

The legislative committee of the Minnesota Society of Certified Public Accountants presented a preliminary report at a meeting of the society April 24th. The report showed progress of the committee in its consideration of new state legislation which it is planned to introduce at the next session of the legislature.

At the meeting a committee was appointed to outline a comprehensive programme of activities in which the society may engage during the ensuing year. The meeting was well attended.

### **Federal Reserve System Explained to St. Louis Accountants**

C. M. Stewart, assistant federal reserve agent in St. Louis, spoke at a meeting of the St. Louis chapter of the Missouri

Society of Certified Public Accountants, May 3rd at the Mayfair hotel, on the advantages of the federal reserve system.

Mr. Stewart enumerated some of the facilities offered by the system, including lending of money at prevailing rates, furnishing currency and coin as needed and collecting at par.

He said that the federal reserve bank accepts from its members, for safe keeping, securities, notes and other collateral. The bank issues each month a review of agricultural, industrial, commercial and financial conditions of the district, which is available to members and to others interested. Apart from the specific services of the reserve bank, according to Mr. Stewart, the confidence which it inspires, as a reservoir of credit for recourse in emergency, leads to a sense of security on the part of depositors and borrowers which is an important benefit.

At the meeting a resolution was passed by the chapter endorsing use of the natural business year in place of the calendar year for banking, fiscal and accounting purposes.

### **New York Accountants Hear Tax Bill Discussed**

The proposed revenue act of 1928 was the subject of discussion at a meeting of the New York State Society of Certified Public Accountants following a dinner at the Yale club, New York, April 16th. Roswell Magill, professor of law at Columbia University, spoke on the bill from the viewpoint of the taxpayer, pointing out objectionable features in various provisions. B. H. Bartholow, special attorney of the bureau of internal revenue, replied to some of Dr. Magill's criticisms and explained the reasons for certain conditions not universally approved. About 120 persons attended the meeting.

### **Accountants Club of Charlotte**

George E. Wood, president of the North Carolina Association of Certified Public Accountants, concluded a tour of principal cities of the state at a meeting of the accountants' club of Charlotte, April 29th. W. M. McLaurine made an address on some of his experiences and observations in his work in the textile bureau. Mr. Wood announced a meeting of the association to be

held at Chapel Hill, May 10th, 11th and 12th.

### **Annual Meeting of Philadelphia Chapter, Pennsylvania Institute**

At the annual meeting of the Philadelphia chapter of the Pennsylvania Institute of Certified Public Accountants held April 18th, the following officers were elected for the ensuing year: Robert B. Vollum, chairman; F. P. Byerly, secretary; William R. Main, treasurer; J. K. Mathieson, W. C. Butscher and Horace P. Griffith, members of the executive committee.

### **Annual Meeting of Pittsburgh Chapter of Pennsylvania Institute**

At the annual meeting of the Pittsburgh chapter of the Pennsylvania Institute of Certified Public Accountants, at the University club, the following officers were elected: Frank Willison, chairman; J. M. Cumming, vice-chairman; Adrian F. Sanderbeck, secretary; George F. Herde, treasurer; M. D. Bachrach and Irwin C. Snyder, members of the executive committee. A report was made on the work of the chapter's special committee on the revenue act of 1928, composed of George F. Herde, James F. Cumming and James Walton. Mr. Walton, who appeared at a hearing of the senate finance committee as a representative of the American Institute of Accountants, also acted on behalf of the Pittsburgh chapter.

Paul-Joseph Esquerré was the principal speaker at the meeting. Among other topics Mr. Esquerré advocated more systematic instruction of staff assistants, particularly prior to assignment to specific tasks. He criticized the rising tide of legislation directed at the professional practice of accountancy.

Gardner W. Kimball, president of the Pennsylvania Institute, was the guest of

honor. He spoke on the purposes and ideals of the Pennsylvania Institute. It is planned to hold a meeting of the organization at Bedford Springs in June, and Mr. Kimball urged his hearers to attend.

### **Annual Meeting of Rhode Island Society**

At the annual meeting of the Rhode Island Society of Certified Public Accountants, April 16th, the following officers were elected for the ensuing year: president, William H. Segur; vice-president, John J. Hall; secretary and treasurer, Chester R. Union. The board of directors consists of the officers and George B. Clegg, Jr., and Ernest H. Davison.

A resolution favoring the natural business year was adopted. The resolution draws attention to the convenience of closing the year in the period when the concern's inventories are least.

### **Semi-annual Meeting of Virginia Society**

The Virginia Society of Public Accountants will hold its semi-annual meeting at the Patrick Henry hotel, Roanoke, May 18th and 19th.

It has been announced that the following matters are to come before the meeting: Recommendations of the society to the governor of Virginia with respect to appointment of members of the state board of accountancy; adoption of rules of professional conduct; amendments to the by-laws with respect to changing membership dues; consideration of fostering and promulgating among business men of Virginia the adoption of a natural business year in cases where there is a well defined business year that does not coincide with the calendar year; final report of the legislative committee; report of the "medal fund" committee.

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Benjamin H. Hicklin announces the opening of offices in the Russ building, San Francisco.

Isenberg, Purdy & Co., Detroit, announce the removal of their offices to suite 3223, Barlum Tower.

F. A. Morrison & Co. and Osborn & Hanson announce the consolidation of their accounting practices under the firm name of Morrison & Hanson, with offices at 165 Broadway, New York, and 921 Bergen avenue, Jersey City.



## REVIEWS

JOSEPH J. KLEIN—"WHAT SHALL WE LOOK FOR IN THE FINANCIAL STATEMENTS THAT COME TO OUR DESKS?"

Address before the Forum of the New York Association of Credit Men, January 16, 1928. Reprinted in the *Robert Morris Associates Bulletin*, April, 1928.

Dr. Klein called particular attention to the usual lack of profit-and-loss statements among the financial statements which are generally submitted for credit purposes. He said that profit-and-loss and income statements, in addition to balance-sheets, are of immense importance in analyzing the condition of a prospective borrower, but inasmuch as they are rarely offered it is still more important that the balance-sheet itself be subjected to careful scrutiny.

He mentioned four important questions in the minds of credit men which should be answered by the balance-sheet, as follows:

1. Is there an over-investment in inventories? If so, it is an indication that the organization is "long" on buying and "short" on selling.
2. Is there an over-investment in receivables? The affirmative would imply a weakness in collection operations.
3. Is there an over-investment in fixed assets? Such a condition may indicate an unwise diversion from the transaction of business and an over-dependence on borrowed capital for current needs.
4. Is there insufficient capitalization? This may imply unwise optimism toward the effectiveness of money with reference to the average amount needed to do a given amount of business and a dangerous willingness to let others shoulder the risk of the enterprise.

The speaker mentioned as an additional question, the answer to which depends upon the availability of an analysis of surplus or a profit-and loss and income statement. It is, "Are there insufficient profits?" If the answer is "Yes," he says there is positive likelihood of impending dissolution.

Dr. Klein spoke at length on the importance of what he called a "pedigreed financial statement." He pointed out that the source of the financial statement is of considerable importance, even in comparison with its contents. He urged his audience to ascertain whether or not the statements presented are the product of accredited accountants or not, and he explained the advantages of statements composed by practitioners who have earned recognition and have voluntarily subjected themselves to discipline by joining a professional society. The speaker mentioned some undesirable groupings in financial statements which, he said, would rarely be found in the work of a reputable accountant. They are as follows: (1) cash and accounts receivable as a single item; (2) accounts and notes receivable as a single item; (3) accounts receivable, notes receivable, and advances as a single item.

He said that naturally the discovery of such items on a balance-sheet would affect the attitude of the credit man toward the whole statement before him.

Dr. Klein mentioned the advantage of comparative balance-sheets in their indication of trends as

well as effects at a given time and he said that the profit-and-loss and income statement has much in common with the comparative balance-sheet. Its particular value is the indication of causes of changes from one balance-sheet date to another. It also reveals the capabilities and achievements of the management. He inferred that the general submission of profit-and-loss statements and comparative balance-sheets for credit purposes would materially assist the extension of credit on a sound basis.

The speaker outlined the main divisions of a profit-and-loss and income statement and spoke particularly of the amount of net profits indicated as a matter of prime importance to credit men. The statement of income, he said, without reference to net investment and volume is meaningless, and those operating ratios should be determined. The relationship of gross profit to the expenses of doing business should receive close scrutiny, since any decrease in the ratio is extremely significant. He then applied the general principles he had mentioned to specific cases and his illustrations were supported by hypothetical financial statements. He mentioned an actual case which had come to his attention of an accountant who insisted on revealing in a client's balance-sheet the fact that the concern had covered a loss from operations by speculation in the stock market. The client objected to his statement on the ground that it could not be used for credit purposes and when the accountant refused to omit reference to the condition, an unaccredited accountant was engaged who gave an unqualified certificate of audit. Credit men, he said, should encourage the type of professional work of the first accountant and with their cooperation the accountancy profession could do much to reduce the losses incurred in the extension of credit.

WALTER MUCKLOW—"RELATION OF THE ACCOUNTANT TO THE BUSINESS MAN"

Address delivered at the University of Florida, April 19th.

The speaker began his remarks by defining terms used in the subject of his discussion. He said that by business men he meant manufacturers, merchants and those engaged in public-service activities, as well as bankers and lawyers. He then gave the definition of accountant and the definition of accountancy by the committee on terminology of the American Institute of Accountants.

Mr. Mucklow said that the objective of the accountant's service is the statement of financial affairs in such a manner as to give due effect to every material factor, making available all the information that past accounts can give to assist in planning for the future. The accountant's method consists of two processes, he said: synthesis, such as is used in building up or designing accounts, and auditing, the object of which is to analyze the results submitted.

Mr. Mucklow said that the pride of an accountancy practitioner in his profession is founded on sentiment rather than on the technical scope of his functions, because an accountant occupies a unique position among the professions in that his whole

object is to tell the truth. In so far as he does this he is a success, and in so far as he fails to do so he is a failure.

The goal of the accountant, continued the speaker, depends upon the ascertainment of what is the truth and upon the ability of the accountant to place before others an intelligible picture of the truth. He said that the accountant requires, therefore, a technical training to enable him to ascertain the true meaning of facts and figures, as well as a general training to enable him clearly to portray the results. His technical work must be both analytic and synthetic; he must break up statements into their component parts and also gather isolated facts into a picture of the whole. Training in the principles of accounting, business conduct, economics and mathematics should be part of the equipment of the accountant, the speaker said. He added that intuition derived from thorough training is an extremely advantageous attribute. He stressed the value of a command of English when the accountant comes to explain the results of his efforts.

The speaker explained the accountant's problem in reporting his findings, saying that he must not only report what he has discovered but omit insignificant details which might distract attention from the main object or obscure it. He must exercise the art of selection as well as the skill of assembling facts, the speaker said.

Mr. Mucklow outlined the history of accounting and showed how the scope of the auditor's duty has been enlarged in recent years.

He compared the present relation between a business man and the accountant to that between a physician and his patient. In both cases the relation is an intimate one, he said, and is based upon the ability and the character of the professional man. He showed how the medical examination of today has improved compared with that of past years. The patient passes through electric, chemical, physical and mental tests which are studied by the physician, who then expresses his opinion and gives directions which are plainly intelligible to the patient. The modern accountant, too, makes a conscientious examination and endeavors to avoid any statement in his explanation which may not be intelligible to the client.

The speaker pointed out the fact that financial statements are bound to be largely matters of opinion, which is made clear in the accountant's certificate. The client pays for the opinion and the banker relies on it. Obviously the qualifications of the accountant himself gauge the worth of his opinion.

The speaker said that the accountant's relation to the client should be continuous. It is just as illogical for a business man to defer engaging an accountant until he is confronted with bankruptcy or financial difficulties as it is for a man to delay a visit to his physician until he is incapacitated.

Mr. Mucklow told of the danger of limiting the accountant's investigation to a special purpose, and again he illustrated by allusion to the medical practitioner. A patient injured in an accident would scarcely instruct the surgeon to treat nothing but one obvious injury, Mr. Mucklow said, but the

clients of accountants often do that very thing, sometimes to their ultimate disadvantage.

#### HARRY P. BURLINGAME—"IS OUR PROSPERITY PROFITLESS?"

From an article published in *The Executives Magazine*, April, 1928.

Mr. Burlingame says that there are fundamental errors in the conception of profitless prosperity which is being expressed in many quarters. Treasury statistics, he says, are the source of most declarations to the effect that American business is, in about 50 per cent. of the cases, profitless.

The writer believes that business is undergoing fundamental changes as the effect of the economic disruption following the great war, and that this is the reason why certain members of the business community may be in distress. He thinks that proper accounting methods may be responsible for an apparent reduction in the profits of late years compared with those stated ten or fifteen years ago, and that before the war a firm doing the same volume of business as one today would have believed that it was obtaining a much larger profit than would be the case now. Modern firms are charging themselves with the maximum of depreciation, depletion and renewal costs, and in some cases are writing off against income items of replacement or renewal which formerly were considered to be capital expenditures. He says that as a matter of fact the ratio of companies reporting a net income to those showing a net deficit has not changed since 1916.

He admits, however, that a comparison of net income or profits with gross income or total receipts shows a decreasing profit margin over the last ten years, but he claims this is only half the story. While earnings are becoming less and less in comparison with the amount of business they are based on, losses, he says, are likewise decreasing in equal proportion.

Mr. Burlingame denies the common statement that only the bigger corporations are making adequate profits. He cites illustrations to prove that in small corporations where the principals are actually engaged in the business and report their withdrawals as salaries and therefore personal income, the corporation may seem to have a small profit margin when this is not actually the case. Large corporations are able to use administrative ability economically, and this gives them a superiority over the smaller business, according to the writer. However, in many kinds of business, mass production can not be applied, and in such fields small firms may be very profitable.

Mr. Burlingame says that if the treasury department, instead of judging the returns of corporations on the basis of net income, would give an analysis showing a division into classes by gross income and then show within these classes how many firms made net income and how many failed and in what amounts, there would then be a trustworthy basis on which to determine the profitable or unprofitable character of big business in comparison with small.

## COURT DECISION

### Taxation

(Federal.) Income. Basis of valuation of inventories under revenue act of 1918. An action was brought by the government to recover an assessment of additional taxes from the stockholders of a corporation whose assets had been distributed. It appeared that the corporation's plant was destroyed by fire at the end of 1919. After distributing its assets to stockholders it dissolved in 1921. In making income-tax returns for 1917, 1918 and 1920 it figured its income by estimating its inventories of raw material at the market price, which was higher than cost. The government made an audit of the books and assessed additional taxes under treasury rulings that a corporation should take cost, rather than market value, if cost was lower. Defendants contended that the treasury rulings were erroneous and alleged a custom

in the business to take market value in figuring income.

It was held that the government could recover the additional taxes. The treasury rulings were reasonable in requiring corporations to value inventories at cost or market, whichever was lower. The corporation could not value its inventory at market if higher than cost. Section 203 of the revenue act of 1918 required inventories to be taken upon the basis prescribed by the commissioner. The corporation did not have the right to take its inventories on any other basis than that prescribed by the commissioner. Held further, that treasury decision 3296 promulgated March 2, 1922, on which defendants relied, was not applicable because it had not been adopted when the returns involved in this case were made.

*Kemp, et al., v. U. S.* U. S. circuit court of appeals, fifth circuit, April 12, 1928.

## OBITUARY

### H. W. Courter

H. W. Courter, a member of the American Institute of Accountants and a certified public accountant of Indiana and North Carolina, died March 15th. He was 53 years of age and had been engaged in professional public accounting for about 25 years. Mr. Courter was admitted to the Institute in 1921. He was a member of the firm of Courter & Rhyne, New York.

### Edward C. Gough

Edward C. Gough, a charter member of the American Institute of Accountants and formerly a member of the American Association of Public Accountants, died May 2nd. He was seventy-one years old.

Mr. Gough was a certified public accountant of New York, and a member of the New York State Society of Certified

Public Accountants. He was a partner in the firm of Gough & Bacon.

### Wilbur A. Jordan

Wilbur A. Jordan, a member of the firm of Herbert F. French & Co., Boston, died April 2nd. He was a certified public accountant of Massachusetts.

### C. J. Marr

C. J. Marr, a certified public accountant of Illinois, died May 5th at the age of sixty-five. He had retired several years ago from active accounting practice, to which the greater part of his life had been devoted. Mr. Marr was formerly a partner in the firm of Price, Waterhouse & Co. Funeral services were held May 8th, at St. Patrick's Cathedral, New York. William H. West, past president of the Institute, attended the services as official representative of the Institute.

F. W. Hilditch & Co. of 17 East 42nd street, New York, announce their association with Lybrand, Ross Bros. & Montgomery and the removal of offices to 385 Madison avenue, New York.

The firm of Albert W. Mahone & Co. announces the removal of its offices from 10 South LaSalle street to the New State Bank building, 120 South LaSalle street, Chicago.

# BULLETIN

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SERIES B, No. 50

## Annual Meeting, American Institute of Accountants

The twelfth annual meeting of the American Institute of Accountants will be held at the Statler hotel, Buffalo, New York, September 17-20, 1928. This will be the forty-first meeting of the organization since it was founded as the American Association of Public Accountants.

This meeting will be noteworthy in its international character. The Dominion Association of Chartered Accountants will meet at Toronto at the same time and the Institute will have the pleasure of entertaining the Canadian accountants at some of its sessions and of visiting their meeting in turn. The warm friendship which has always existed between accountants of the two countries should be extended and strengthened by this opportunity to develop personal acquaintance.

After consideration of possible headquarters in northwestern New York the Institute's committee on meetings finally selected the Statler Hotel at Buffalo as the one offering the most satisfactory facilities. The Statler is commodious, having 1012 rooms, ranging in price from \$3.50 to \$12.00 per diem. There is an excellent hall where the annual banquet will be served.

The Buffalo chapter of the New York State Society of Certified Public Accountants has appointed a committee to coöperate with the Institute committee in making arrangements for the meeting.

Golf will as usual be a feature of the entertainment provided. Golf clubs are only a short distance from the center of the city,

and the annual tournament for the Missouri Golf Trophy, between teams representing chapters of the Institute or state societies, will be played at one of them. Arrangements may also be made for informal matches.

Trips to Niagara Falls and across the Canadian border, and a theater party, in addition to bridge and tea parties for the ladies, are included in the programme.

Papers will be presented at the business sessions by accountants of wide reputation. A discussion on the advantages of college graduates as staff assistants will be led by Warren W. Nissley, chairman of the Institute's special committee for placements. Names of other speakers and the titles of their addresses will be announced later.

Several railroad companies have expressed willingness to arrange transportation for groups of accountants who may wish to travel to the meeting in private cars. Members in the south or west who are interested in arranging such parties should communicate with the secretary.

Following is a draft of the tentative programme, which is, of course, subject to change:

### DRAFT PROGRAMME

#### Monday

- 9 a.m. Executive committee meeting
- 10 a.m. Council meeting
- 2 p.m. Golf
- 3 p.m. Tea (for ladies)
- 8 p.m. Theater party.

It is understood that many Canadian visitors will arrive Monday evening and may participate in the theater party. The greater number of Canadians will probably arrive early Tuesday morning.

*Tuesday*

- 10 a.m. Opening session  
Invocation  
Welcome to Canadian visitors  
President's report  
Council report  
Papers
- 12:30 p.m. Lunch
- 2 p.m. Golf tournament—Bridge at golf club for ladies
- 8 p.m. Business session  
Committee reports  
Papers

*Wednesday*

- 10 a.m. Business session  
Election of officers  
Unfinished business
- 12 m. Drive to Canadian shore across Peace Bridge  
Lunch in Canada  
Drive to Niagara Falls and back to Buffalo by way of suspension bridge.
- 7:30 p.m. Back at Buffalo  
Annual banquet

*Thursday*

- 9 a.m. Council meeting
- 2 p.m. Leave for Toronto to attend meeting of Dominion Association of Chartered Accountants.
- Evening. Dinner at Toronto

*Friday*

At Toronto, meeting with Dominion Association of Chartered Accountants.

## **Regional Meeting at Chicago**

A meeting of the mid-west region of the American Institute of Accountants was held at the Union League Club, Chicago, June 7th. The attendance was about 100, consisting of members of the Institute of the region, members of the Illinois Society of Certified Public Accountants and others interested in accounting.

Registration commenced at 9:30 in the morning and the meeting was called to order at 10 o'clock. The technical sessions were devoted entirely to the subject of inventories. H. P. Dutton, professor of factory management of the school of commerce, Northwestern University, delivered the introductory address. He was followed by Howard Greer, director of accounting of the Institute of American Meat Packers and secretary of the American Association of University Instructors in Accounting. Mr. Greer spoke on "Market-value inventories and profit determination in the packing industry." The third speaker at the morning session was H. W. Treleven, whose sub-

ject was "Inventory problems of the steel warehouseman." Mr. Treleven is office manager of Joseph T. Ryerson & Sons, Inc.

Luncheon was served at the club, and at 2 o'clock G. A. Neff, treasurer of the Birtman Electric Company, opened the afternoon session with an address on "Taking of small-parts inventories." "Valuation of investment securities for inventory purposes" was the subject of an address by Charles W. Fritz of Gilby, Penny & Hall. The last technical paper of the day was on "Lumber inventories," by W. L. Vernon, chief accountant of the Illinois Lumber Yards. The secretary of the Institute spoke on professional ethics.

Dinner was served at the Union League Club.

On Friday, June 8th, the annual golf tournament of the Illinois Society took place at the Briergate Golf Club. All members of the American Institute attending the meeting were invited to participate.

The region is composed of the following states: North Dakota, South Dakota, Illinois, Iowa, Kansas, Kentucky, Minnesota, Missouri, Nebraska and Wisconsin. The committee in charge of the meeting consisted of F. B. Andrews (chairman), Illinois; E. M. Lynn, Missouri; Charles G. Harris, Kentucky; E. M. Worthington, Iowa; Gladstone Cherry, Wisconsin; John M. Gilchrist, Nebraska, and Stanley Spurrier, Kansas. The coöperation of the Illinois Society of Certified Public Accountants was largely responsible for the success of the meeting.

## **Institute Examinations**

On May 21st the Institute examiners commenced marking the papers of candidates who sat at the examinations of May 17 and 18, 1928. The results will probably have been reported to state boards of accountancy by the time this *Bulletin* is published.

Twenty-eight states and three territories coöperated with the Institute in the examinations this spring. It is estimated that nearly 700 candidates took the Institute examination in different parts of the country.

## **Elijah Watt Sells Scholarship Prize**

The Elijah Watt Sells scholarship prize of \$50 was won by Frank Ahlforth, Chicago,

in the May, 1928, examinations. The prize is awarded annually to the applicant for admission to the Institute who obtains the highest marks in the written examinations each spring.

### **Employment Exchange**

From time to time the Institute receives inquiries from accounting firms concerning staff accountants available for employment. Similar inquiries are often received from experienced accountants who desire positions. In many cases the Institute has been able to be of assistance to both parties concerned.

While facilities are not available for the conduct of a regular employment agency by the Institute, it is felt that its offices might properly serve as a clearing house for information concerning staff positions available and accountants who might fill them, and in the future an effort will be made to obtain and disseminate such information in an organized way.

This service will not, of course, conflict with the bureau for placements, which attempts to place college graduates as junior assistants, but will apply only to accountants who have had sufficient professional experience to act as semi-senior or senior assistants.

The Institute will not undertake to investigate applicants, to verify the information submitted, nor to vouch for the ability or integrity of applicants, but will merely publish the requests for positions or for men, together with such data as may be available, for the convenience of those who may be interested. Firms and applicants alike will be expected to make their own investigations before entering into any agreement. The Institute's function will be merely to put them in touch with each other.

At intervals there will be published in the *Bulletin* lists of accountants who are seeking employment and of firms which are seeking assistants, supplemented by any information which the persons concerned may care to submit.

It is repeated that the Institute will assume no responsibility for the accuracy of statements made, and that this service will be offered only to accountants of senior or semi-senior grade.

There will, of course, be no charge for this service.

### **Accountancy Bill Introduced in Louisiana**

A proposed act, known as house bill No. 331, to amend the existing accountancy law of Louisiana was introduced in the legislature June 4th and referred to the committee on judiciary. The noteworthy features of the bill are a privileged-communication clause and a section providing that C. P. A. certificates may be granted without examination to all those registered as public accountants under the present law.

It has been reported that the bill will be opposed by the Society of Louisiana Certified Public Accountants.

### **Bankers' Committee on Cooperation with Public Accountants**

Following is the report of the committee on cooperation with public accountants of the Robert Morris Associates, presented at the annual meeting of the bankers' organization, Seattle, June 11th. The report is reprinted in this *Bulletin* by permission of Harvey E. Whitney, chairman of the committee.

#### **REPORT OF THE COMMITTEE ON COÖPERATION WITH PUBLIC ACCOUNTANTS**

The lead-off topic for this report is the financial statement which bears a certificate to the effect that the accountant in his opinion considers it a correct reflection of the financial condition of the company "as shown by the books," on a specified date. During the past six months three such statements have been submitted to us on the assumption that such a certificate is a reflection upon the accountant. While it is true that representative accounting firms are averse to accepting an assignment which, when completed, necessitates a certificate of this character, nevertheless they feel that circumstances sometimes justify them in using such a phrase. Therefore, we emphasize the point that when such a certificate comes to the attention of the credit man, he should regard it not only as of no value but as really sounding a distinct warning, because prima facie it indicates that for some reason the accountant is unwilling to give an unqualified certificate. Don't let it get by. It so happens that in one case where we took this up with the broker offering the paper he stated that he was quite confident that the audit had been a complete one and he could not understand why the certificate was drawn up in this form. He followed the matter through with the result that the accountant admitted that he did not realize he was qualifying the statement by the use of this phrase, and immediately submitted a new financial statement with an unqualified certificate.

Now, for certain interesting side-lights to which we would invite your careful and prayerful consideration. In one case we found that statements

for several years previous to December 31, 1923, had borne unqualified certificates, whereas from that date up to and including December 31, 1927, (the latest statement available) the qualifying phrase appeared. This particular company maintains accounts at three banks in New York, one in Chicago, and two in St. Louis, all of which are active members of the Robert Morris Associates. In another case we found that the financial statements for several years previous to June, 1926, had borne unqualified certificates, whereas on the statement of that date and June, 1927, as well (the latest statement available) the qualifying phrase appeared. This concern maintains accounts at two Boston banks, members of the Robert Morris Associates. In the third instance the qualifying phrase has appeared for the past several years and an account is maintained with a bank in New York and a bank in St. Louis, both members of the Robert Morris Associates. The latter situation is bad enough, but what about the two former ones cited where the concerns have been allowed to submit statements upon which the accountants have changed their certificates from unqualified to qualified ones? Of course, all these banks may have been fully alive to the situations and satisfied themselves as to the reasons therefor—then again maybe not.

A number of instances have been brought to our attention during the past year where accountants have not referred to the fact that certain liability items were secured, notably in the case of "acceptances." While any liability item with a caption indicating that it represents obligations in connection with letters of credit, should carry with it, in the eyes of the credit man, an assumption that it may be secured, a ruling by the committee of the American Institute is very clear upon this point, that such a liability item should be described specifically as secured, by the addition of such words as "against merchandise" or their equivalent.

The subject of service classification is one that we have discussed in some of our previous reports and we want you to know that it is still under consideration by a committee of the American Institute of Accountants. This subject is very closely interwoven with the proposed revision of the pamphlet put out some ten years ago by the federal reserve board on the subject of balance-sheet statements, with which we are all familiar. The suggestion that has sometimes been made that the Robert Morris Associates work out a set of standardized certificates is, in our opinion, therefore, not practicable until the accountants have first threshed out this subject to their own satisfaction.

In our previous report we referred to the lack of cooperation from our commercial-paper-broker members, citing instances of certain faults which had been discovered by the brokers but not reported to the committee. It is particularly gratifying, therefore, to be able to state that we recently received a letter from one of our broker members listing five separate cases involving his own accounts, most of which concerned a lapse upon the part of the accountants in not segregating extraneous items from the receivable accounts.

While on the subject of the commercial-paper broker, we feel constrained to depart a trifle from the specific province of our committee, to call attention to a practice which we want to condemn in unqualified terms. Fortunately, it is not by any

means general, but we have in our committee files evidence in two recent specific instances, and we know of several similar circumstances in the past. It concerns the commercial-paper broker who submits, in connection with an offering, a financial statement which is not an exact reproduction of the one given him by the borrower. As we write this we have before us a financial statement of December 31, 1927, in which the broker has arbitrarily indented and carried out in a sub-total footing, certain asset items which he regards as current, and the same in respect to the liabilities, whereas the original statement lists all the asset items and all the liability items in column formation, so to speak, without indentation. But much more important than this is the fact that the broker omitted a paragraph from the accountant's certificate commenting as to the manner in which the inventory was taken and stating that a certain contingent liability existed as of statement date. In other words, the broker used merely the concluding paragraph of the certificate which was to the effect that in the opinion of the accountants it was a true and correct showing of the company's financial condition. It goes without saying that the accountant so certified to the statement only upon the understanding that this certificate should be read and used in its entirety. We feel confident that this is a practice in which no right-thinking broker would engage and we hope that if such circumstances come to the attention of the members they will immediately report same to us.

A partner of a well known accounting firm recently prepared an article on inventory valuations which was published in our bulletin and a separate reprint sent to all our members. We hope that you read this and are prepared to back up the recommendations therein so far as possible, particularly that one to the effect that the accountant should be given authority to oversee the taking of the inventory. In this we can help by urging our customers to adopt such a practice. This puts the accountant in a most favorable position to satisfy himself as to the complete correctness of the inventory figure, rather than being obliged to rely upon a certificate from certain of the principals and then verifying merely the clerical accuracy of the figures, which means simply checking back the extensions and footings. It is probably true that even under such circumstances it would be possible for a man so minded to perpetrate a fraud of some character, but it is none the less true that more than one instance in recent years, where there has been an over-valuation of inventory, would have been discovered, had the accountant been allowed to oversee the taking of the inventory from its inception, making such arrangements for checkings, testings, etc., as he saw fit.

This report, while lengthy enough as it is, would have been still longer had it not been for the fact that during the past year your chairman prepared four articles for our bulletin, three of which have already appeared and the fourth is in cold storage for a forthcoming issue. The first article urged that each member should charge himself with the duty of preparing a paper, preferably reasonably short and to the point, upon any situation or subject that should come to his attention and which he knew would be of interest to the membership at large. We understand from our secretary that as

yet he has not been overburdened through responses to this appeal. Of the three other articles one had reference to the danger of relying upon a printed financial statement not signed manually by the accountant; another treated of "Merchandise commitments," and the third of "Window-dressed statements."

Possibly one of the most concrete evidences of a result of our committee work came to the personal attention of your chairman. It was an instance in which the treasurer of a corporation told him that the accountants who had been certifying to the financial statements of his company over a period of years had declined to do so as of December 31, 1927, without referring to certain contingent liabilities that existed on that date and which incidentally had existed for a number of years previous in connection with guaranties on bond issues, contract arrangements, etc., giving as a reason the fact that an organization known as the Robert Morris Associates, made up of bank credit men, had been criticizing accountants generally, not overlooking his accounting firm in particular, because of their neglecting to refer to contingent liabilities. When the statement was finally submitted it contained a reference to the contingent liabilities.

"Behold, I show you a mystery;  
We shall not all sleep, but we shall all be changed, . .  
For this corruptible must put on incorruption, and  
this mortal must put on immortality." 1 Cor.  
15-51, 53.

Respectfully submitted,

E. E. BARKER  
C. V. CHILDS  
JOHN CLAYTON  
J. N. EATON  
P. F. GRAY  
EDMUND WILLIAMS  
H. E. WHITNEY, *chairman*

## **Annual Meeting, National Association of Cost Accountants**

The annual meeting of the National Association of Cost Accountants was called for June 14, 1928, at the Commodore hotel, New York. The annual meeting of the association was preceded by the Ninth International Cost Conference which began on June 11th and continued during the next three days. The programme included elaborate plans for the entertainment of guests at the conference, such as sight-seeing trips about the city, visits to industrial plants and a golf tournament at Round Hill, Greenwich, Connecticut, which was arranged through the courtesy of Col. Arthur H. Carter.

The various technical sessions included discussions on six different topics, each one occupying an entire morning or afternoon session. The subjects of discussion were as follows: The profit trend in American industry; the determination of labor standards for costs and wage-incentive plans; the sim-

plification of industrial accounting; plant and property records, appraisals and depreciation; accounting forum; what standard costs are doing for the reduction of costs in the production and distribution departments.

At the annual meeting of the association on June 14th, the nominating committee submitted the following recommendations for officers and directors for the ensuing year: President, F. L. Sweetser; vice-president, Addison Boren; vice-president, Walter S. Gee; treasurer, William O. Cutter; directors to serve three years: Grant L. Bell, V. W. Collins, C. F. Eveleigh, Thomas B. Frank, D. C. Lowles, W. R. Phemister, J. W. Root and H. L. Whittier.

## **New York Society Directors Favor Natural Fiscal Year**

At a meeting of the board of directors of the New York State Society of Certified Public Accountants, April 12, 1928, the following resolution was adopted:

WHEREAS, Investigations and studies by educational institutions and professional, commercial and trade organizations disclose that 72 per cent of business men, firms and corporations are making a practice of closing their books, taking inventories and winding up their business years on December 31st; and

WHEREAS, Reliable reports show that the natural business year of but 44 per cent of business men, firms and corporations ends on December 31st; and

WHEREAS, Many advantages would accrue to business houses generally if the congestion of banking, fiscal and accounting work now encountered at the end of the calendar year could be avoided by transferring a part of it to other periods in conformance to the natural business year; and

WHEREAS, Among these advantages would be taking inventories at a slack period, when stocks were at their lowest; having a financial picture of a business that will more truly reflect its real condition and progress than one taken at the height of a busy period; having a clearer conception of conditions on which to base plans and purchases for the coming year, and more time in which to discuss them, than under the present plan; permitting accountants and auditors to perform their work under more advantageous conditions than can be had at a rush period; collecting statistical data for a natural rather than an artificial period; distributing more advantageously the work of the credit department; relieving congestion in arranging loans; facilitating comparisons; making verifications easier because of low inventories; providing more time for consultation between business men and accountants; eliminating some of the temporary extra help now required in the United States bureau of internal revenue; obtaining a more even flow of collections



by the government; reducing congestion in banks; and

WHEREAS, The United States treasury department makes specific provision for the use of any period ending with a calendar month, as a tax, or fiscal year and sets up machinery for the computation of the tax; and

WHEREAS, The many advantages flowing from the adoption and use for fiscal, credit, banking, statistical and accounting purposes appear to outweigh the possible disadvantages in the cases of businesses whose natural business year does not coincide with the calendar year; therefore, be it

RESOLVED, That the New York State Society of Certified Public Accountants gives its endorsement and approval of a more general use than at present of the fiscal, or natural, business year, by individuals, firms and corporations whose interests would be best served by making the change.

### **Association of Commerce Approves Natural Year**

A resolution urging the United States Chamber of Commerce to endorse and recommend the use of the natural business year was passed May 2nd by the executive committee of the Milwaukee Association of Commerce. The action was initiated by the Wisconsin Society of Certified Public Accountants.

### **National Panel of Arbitrators**

Several members of the American Institute of Accountants have been invited to serve on the National Panel of Arbitrators appointed by the American Arbitration Association for the purpose of making commercial arbitration available in all parts of the country. Such a panel had already been in existence but it consisted chiefly of arbitrators in New York state. It is now planned to enlarge this group to nation-wide proportions. Efforts are being made to appoint one accountant, one lawyer, one banker and several prominent business men from different industries in each city of importance. These men will be expected to serve as arbitrators without remuneration when their time permits, either singly or as a group. Such representatives will be appointed even in states which at present have no arbitration law.

### **Edward E. Gore Guest of British Accountants**

Edward E. Gore, former president of the American Institute of Accountants, was a guest at a dinner given by Richard Henry March, president of the Institute of Chartered Accountants in England and Wales, on

May 1st, at the Hall of the Institute, Moorgate Place, London. The president's dinner preceded the annual meeting of the Institute.

### **Status of Foreign Accountants in Japan**

At a special meeting of the council of the Institute of Chartered Accountants in England and Wales, May 2, 1928, there was presented a letter from the British foreign office dealing with the status of foreign accountants in Japan under the Japanese accountancy law effective since September 10, 1927.

The following is an extract from the letter:

"The registration of any foreigner as Keirishi depends upon the designation to be made by the competent minister (that for commerce and industry) in accordance with the provisions of paragraph 1, article 2, of the accountants' law. As no such designation has yet been made, foreigners are, as things stand at present, entirely outside the scope of the law. In consequence, neither supplementary provisions annexed to the law nor article 18 of the ordinance for its enforcement can be applied to them. This state of affairs, however, does not cause any impediment, legally and practically, to the continuance of practice by British chartered accountants without styling them Keirishi. Apart from the contingency that with the development of the system of Keirishi in this country it may become necessary in future to revise the law itself and to give special treatment to persons styled Keirishi, the department of commerce and industry has, in the meantime, no intention to make any discrimination according as the appellation of Keirishi is possessed or not, that is to say, between Japanese Keirishi and British Chartered Accountants, in regard to the prosecution of their profession."

Keirishi is the title given accountants accredited under the Japanese law.

### **Books of Account as Evidence**

Books of account are admissible as legal evidence of goods sold and delivered, or of services performed, according to an article by John V. Zanardi, published in a recent issue of the *Bi-Monthly Law Review*. A general rule has been laid down, the article says, that the books of all persons practising a regular craft or occupation are admissible as evidence, provided it be shown that the party concerned kept clear and correct accounts. This is generally required to be shown by the testimony of persons not parties to the case in dispute. Frequently, the article says, where books of account are

not themselves admissible in evidence, they may be used to refresh one's memory.

### **Should an Auditor Resign?**

Following is a quotation from an article by L. R. Dicksee on the proper procedure of an auditor in the event that he detects irregularity in the conduct of a company whose accounts he is auditing. The article was published in *The Australasian Accountant and Secretary* for April, 1928.

"Supposing an auditor has satisfied himself that there is something wrong about the conduct of the company whose accounts he is auditing, ought he or ought he not to resign?

"It is impracticable to answer in general terms a question that can only be decided after the most careful consideration of the particular circumstances obtaining but the mere fact that resignation is so obviously the easier course suggests the desirability of considering very carefully whether it is the right course as well. If the position be unsatisfactory and the honesty of the directors under suspicion, the probability is that the auditor is losing little or nothing by resigning. His continued connection with a doubtful concern can do him little good professionally, there is quite an appreciable risk that his fees will not be paid, and a possibility that he may be troubled with inquiries from a committee of investigation or an official receiver, which would take up much of his time and produce no fees at all. From the purely selfish point of view, therefore, there can be little doubt that an auditor can not do better for himself than by resigning when there are indications of trouble ahead.

"But the auditor who recognizes that he has duties as well as rights, will perhaps take the view that the interests of the shareholders are more important than his own interests. If in such circumstances as these an auditor resigns, a "casual vacancy" has occurred, which the directors may fill without consulting the shareholders. It is as likely as not that the great majority of shareholders will never be told, and will never notice that there has been a change of auditors—that is to say, nothing will have occurred which, so far as they are concerned, sounds any warning note at all. From the auditor's point of view, it is no doubt much simpler, and in the long run more profitable, to resign a troublesome audit than to issue a report to shareholders which the directors will regard as unfriendly, or (as they will probably put it), calculated to damage the prestige of the company.... It may well be questioned whether the professional accountant who has accepted an appointment as auditor to a company has a moral right to regard the appointment as a fair-weather appointment only, and there certainly seems to be a good deal to be said in favor of the suggestion that, having once accepted the appointment, an auditor ought to go on with the job, until he is able to issue a report to the shareholders in due course. After all, a professional man who has accepted a responsibility can hardly claim to have performed his duties to the uttermost if the moment any difficulty arises he runs away from responsibility. At present,

probably the more usual course is for the auditor to resign in these circumstances, and leave others to unravel the tangle, but it is submitted that those who decide to carry on in circumstances that can produce no profit to themselves, and must of necessity involve no little anxiety, have chosen the better part and shown themselves more worthy of the confidence of the investing public."

### **Accountant Tells Students about Bureau for Placements**

In a paper read at the conference on accounting held jointly by the Ohio Society of Certified Public Accountants and the school of commerce and administration of Ohio State University, R. E. Warren, of Cleveland, recommended the bureau for placements of the American Institute of Accountants as a valuable channel through which college graduates might obtain a foothold in professional accountancy.

In his address, Mr. Warren emphasized the difficulties of a public accountant's career. He mentioned the necessity for constant study and sacrifice of leisure to the pursuit of extensive technical knowledge. Mental, moral and physical stamina is a prime requisite for a successful accountant, Mr. Warren said. He stressed the professional character of public accounting, the necessity for ethical practice and the importance of a strict regard for the impartial and confidential nature of the service. However, the increasing scope of accounting services, the opportunities in the profession for well educated men and the great service which a public accountant may render the business and industrial world, Mr. Warren said, more than compensate for the heavy demands made by the profession on its practitioners. In the course of his address Mr. Warren quoted extensively from the pamphlet entitled "Accountancy is a career for educated men," published by the special committee for placements of the American Institute of Accountants.

### **Uniform Cost Accounting**

The department of manufacture of the Chamber of Commerce of the United States has issued a pamphlet entitled *Uniform Cost Accounting* (service to trade associations) which calls attention to the advantage to any industry of collective study of the development and use of uniform methods in cost accounting. The pamphlet contains charts showing wide fluctuations in prices which

are obviously too great to be due solely to variation in manufacturing costs, and says it is evident that the various manufacturers were not figuring their costs by uniform methods. The accounting problems of each industry are peculiar, the pamphlet continues, and it maintains that a standard cost basis is an outstanding requisite in any industry. The department of manufacture has kept well informed of efforts by trade associations in this direction and is prepared to convey information upon methods of organization and conduct of these activities. Copies of the pamphlet may be obtained upon request from E. W. McCullough, manager of the department of manufacture of the Chamber of Commerce of the United States of America, Washington, D. C.

### **Prosecution of Commercial Crime**

Two hundred and eight commercial criminals in the United States have been convicted as a result of the efforts of the National Association of Credit Men in the last twelve months, according to the annual report of the comptroller of the association. Indictments against 419 persons charged

with business fraud have also been obtained by the association. The report, made public May 11th, says that since the national credit protection fund of \$1,400,000 was raised by the association several years ago, 444 commercial criminals have been convicted on the strength of evidence obtained by the credit organization and indictments have been returned against 1,142 persons, of whom 536 are awaiting trial. It says further that during the past twelve months 640 requests for investigations of bankruptcies were received by the association from business houses, while in the preceding year the number of such requests was 789.

### **International Association of Comptrollers and Accounting Officers**

The twenty-third annual convention of the International Association of Comptrollers and Accounting Officers was held May 17th, 18th and 19th, at the Atlanta Biltmore hotel, Atlanta, Georgia. Theodore N. Waddell, director of accounts of the state of Massachusetts, was elected president. More than one hundred financial officers from all parts of the United States and Canada attended the convention.

## **COMMITTEE ACTIVITIES**

### **Special Committee on Definition of Earned Surplus**

At a meeting of council of the American Institute of Accountants, authorization was given the special committee on definition of earned surplus to prepare and submit to the membership a questionnaire, the answers to which might serve as a basis to clarify many problems arising in the balance-sheet presentation of surplus, on which accounting practice is by no means standardized.

Such a questionnaire was mailed to each member and associate under date of May 9th and the response has been most encouraging. Nearly three hundred replies were received within a few weeks and on June 5th a second request for an answer was mailed to those who had failed to return the forms.

A great deal of interest seems to have been aroused by this questionnaire. Requests for more than a hundred extra copies have been received. In one case a member desired copies for distribution at a local

meeting of accountants held jointly with bankers.

It is earnestly hoped that all members and associates will express their opinions on this important subject through the medium of the questionnaire, as the committee strongly desires answers representing the opinions of the whole profession, as far as possible.

The special committee on definition of earned surplus consists of Arthur Andersen, chairman, George D. Buist and F. A. R. MacFadden.

### **Special Committee for Placements**

According to present indications the bureau for placements of the Institute, conducted by the special committee for placements, will be more active during the coming summer and fall than has been the case since its inception in 1926. Sixty-six firms have requested in writing that college graduates who have been approved by the committee be referred to them as

possible staff assistants and have agreed to contribute toward the expenses of the bureau \$50 for each man employed.

Since January, 1928, 143 applications have been received from seniors or graduates of 70 colleges. Many of these applicants have been rejected, as the committee felt that they did not meet the high standards of scholarship and personality required by the bureau. Fifteen men have been placed since the first of this year.

A good deal of publicity has been given the work of the bureau in various colleges. Seven members of the Institute have spoken before students at different colleges, at the request of the special committee, to explain orally the opportunities in accountancy for educated men and the plan of the bureau by which employment with public accounting firms may be obtained. Several

thousand copies of a pamphlet prepared by the committee have been circulated in all the important colleges in the country, and the number of inquiries received as a result of this distribution indicates that interest in accountancy as a profession is being rapidly developed in the colleges and universities.

A larger number of eligible men is available at present than at any time in the past and new additions to the lists of firms which have requested assistants through the bureau are constantly being made.

The committee hopes that any firms which might be interested in employing recent graduates as junior assistants will communicate with the bureau in order that they may be placed on the list of those furnished with data concerning applicants who have been approved.

## STATE BOARDS OF ACCOUNTANCY

### Connecticut

The spring examinations of the Connecticut state board of accountancy were held May 17th and 18th. Thirty candidates for C. P. A. certificates presented themselves for examination at the state capitol.

### New Mexico

J. Bryan Stephenson has been appointed by the governor of New Mexico as a member of the state board of accountancy to succeed

R. D. Jones, whose term expired January 1st. At a recent meeting, Mr. Stephenson was elected secretary and treasurer of the board. W. G. Logan is president and Mathias J. Sippel is the third member.

### Oklahoma

The C. P. A. examinations of Oklahoma were held at the state capitol May 21st, 22nd, 23rd and 24th. About 15 applicants tried the examinations.

## NEWS OF LOCAL SOCIETIES

### California State Society of Certified Public Accountants

#### LOS ANGELES CHAPTER

At the annual meeting of the Los Angeles chapter of the California State Society of Certified Public Accountants, the following officers and directors were elected: I. Graham Pattinson, president; Henry M. Thomson, vice-president; William P. Quinn, secretary-treasurer; directors: Walter K. Mitchell and Harry L. Mills.

The chapter adopted by unanimous vote a resolution endorsing wider use of the natural business year for banking, fiscal and accounting purposes.

Reports of the activities of the past

year were presented by the officers and committee chairmen.

A questionnaire has been distributed to members of the chapter to assist in planning meetings for the ensuing year. The questionnaire gives an opportunity for each member to indicate the time of meeting preferred, types of subject which he would like to have discussed and other similar matters.

### Coöperation between Credit Men and Accountants

At a meeting of the Colorado Society of Certified Public Accountants, May 14th, Ernest J. Tracy of the Denver National Bank spoke on the necessity for greater

coöperation between the credit departments of banks and certified public accountants. Mr. Tracy indicated the mutual advantages which could be derived from such coöperation. As a result of his address the Colorado Society has invited the credit men of several banks in Denver to attend a meeting of the society to be held in the near future.

### **District of Columbia Institute of Certified Public Accountants**

The annual dinner of the District of Columbia Institute of Certified Public Accountants will be held on the evening of June 18th.

A committee of the institute, of which J. B. Grice is chairman, has been arranging weekly luncheons throughout the past year which have been well attended and have served to promote personal friendships among the members.

### **Officers of Indiana Association Elected**

Following the annual meeting of the Indiana Association of Certified Public Accountants on May 12th, the board of directors elected the following officers to serve for the ensuing year: C. N. Carter, president; F. S. Willett, vice-president; A. R. Chapman, treasurer; J. C. Olive, recording-secretary and H. A. Roney, corresponding secretary.

At the annual meeting Paul W. Pinkerton gave an address on "The accountant's task," which was followed by short addresses by past presidents of the association: H. A. Roney, G. E. Morgan, George S. Olive and F. W. Nelson.

It was decided that the association should continue its educational programme consisting of the publication of short bulletins on various subjects of interest to the business public.

The meeting then proceeded to the election of an auditor and three directors to fill vacancies caused by expiration of terms of members of the board. William M. Madden was re-elected as auditor, Messrs. Willett and Chapman were re-elected directors and J. C. Olive was elected a director to succeed Mr. Nelson.

### **Massachusetts Society Elects Officers**

At the annual meeting of the Massachusetts Society of Certified Public Ac-

countants, April 28, 1928, the following officers were elected for the ensuing year: president, Charles F. Rittenhouse; vice-president, James Willing; secretary, Clifton W. Gregg; treasurer, Arthur T. Chase; auditor, Ralph S. Perkins. The executive committee elected consists of J. Chester Crandell, Henry W. Robbins and Percival F. Brundage, in addition to the officers.

The secretary of the Massachusetts Society has sent to all members a letter urging them to participate in the research study of management, production and marketing, conducted by the New England Council, an organization of business leaders in the New England states. The Massachusetts Society of Certified Public Accountants has a committee which is coöperating in the research work with other organizations.

It has been decided that the organization and management of a concern are largely responsible for its success, and it is planned to prepare and submit studies of one hundred actual cases of financial or economic failures that have come to the attention of accountants. These cases, by being contrasted with others in which losses resulted from failure to adopt progressive measures, should be of assistance in determining policies of effective management.

### **Michigan Accountants Conference**

A conference of accountants of Michigan was held at the Book-Cadillac hotel, Detroit, May 25th. The conference was under the auspices of the Michigan Association of Certified Public Accountants, but all accountants, certified and uncertified, licensed under the Michigan law, were invited to attend. Technical sessions were held in the morning and afternoon. Charles B. Couchman, chairman of the board of examiners of the American Institute of Accountants, delivered an address on accounting for mergers. Paul W. Pinkerton, president of the American Society of Certified Public Accountants, spoke on prevention of failures in business. Harold A. Martin, of the Union Trust Company, Detroit, gave a talk on trust functions as relating to accounting. "The credit man and the accountant" was the title of an address by O. A. Montgomery, secretary of the Detroit Association of Credit Men. A banquet was served in the evening, at which music and vaudeville entertainment were provided.

The speakers at the banquet were Messrs. Couchman and Pinkerton and George H. Klein, attorney. E. E. Staub acted as toastmaster.

### **Regulatory Legislation for Minnesota Discussed**

At a meeting of the Minnesota Society of Certified Public Accountants, May 22nd, a general discussion took place on the question of regulatory legislation. Professor H. Rottschaefer, instructor in constitutional law of the University of Minnesota, delivered an address on the manner of framing a regulatory law of the type proposed by the Minnesota Society without exceeding constitutional limitations. He mentioned briefly reasons for the adverse decisions on restrictive legislation in Oklahoma and Illinois. As a result of the discussion the legislative committee of the society was instructed to continue its study of restrictive legislation and to make a further report.

The committee on activities of the society presented a report recommending closer relationship on the part of the society with the business public. The committee felt that the certified public accountant certificate and membership in the Minnesota Society are largely for the advantage of those using the services of professional accountants and that the objectives, standards of practice, ethics and obligations to the public imposed on accountants by possession of the certificate and membership in the society should be made clear.

The committee suggested a number of methods by which the society might reach the public. They are as follows:

1. Advertising in trade periodicals and financial publications.
2. The issuance of an annual directory of certified public accountants recognized by the Minnesota state board of accountancy and of members of the Minnesota Society of Certified Public Accountants.
3. Proper classification in telephone and other business directories.
4. Speakers' bureau for radio talks and appearances before luncheon clubs, considering such topics as natural business year, commercial arbitration and similar subjects.
5. The conducting of a department in a trade journal similar to the *Commercial West* wherein articles may appear relative to accounting publications, financial conditions, results of surveys, etc.

The report continued that in the opinion of the committee there should be within the

society some programme to induce a better understanding, closer coöperation and a more fraternal spirit among the members and asked the consideration of the following suggestions:

1. A series of informal discussions as a part of a monthly programme, touching on standards of practice, plans of coöperation, exchange of advice and ethics.
2. The presentation of papers and discussion of them.
3. Such other topics as will bring about a better understanding among the members.

### **Annual Meeting of New Jersey Society**

Maurice E. Peloubet was re-elected president of the Society of Certified Public Accountants of the State of New Jersey at its thirtieth annual meeting at Newark, May 15th. Henry B. Fernald was elected first vice-president; Philip S. Suffern, second vice-president; Julius E. Flink, secretary and M. Hoenig, treasurer. Trustees elected are: J. A. Conlin, J. J. Hastings, W. C. Heaton and A. M. Hauser. Frederick D. Kercher and Charles K. Etherington were elected auditors.

About 90 members and guests were present. Mr. Peloubet presided and he presented a summarized report of the activities of the society during the year 1927-1928.

A. P. Richardson, secretary of the American Institute of Accountants, spoke on the professional ethics of accountancy. His remarks stressed the obligations of professional accountants in protecting the public.

Benjamin Weinberg, member of the character committee of the New Jersey bar examiners, spoke on the ethics of the law. The two addresses showed plainly the differences in the professional conduct of accountants and lawyers, caused mainly by the fact that an attorney is invariably an advocate while the accountant must at all times preserve strict impartiality.

D. W. Springer, secretary of the American Society of Certified Public Accountants, gave an address on "Fellowship." Gardner W. Kimball, president of the Pennsylvania Institute of Certified Public Accountants, was a guest at the meeting.

During the session a tribute was paid to the memory of F. G. DuBois. A resolution was adopted at the meeting favoring the adoption of a natural business year.

## **Annual Meeting, New York State Society**

The following officers were elected at the annual meeting of the New York State Society of Certified Public Accountants, May 14th at the Waldorf-Astoria hotel, New York: Patrick W. R. Glover, president; James F. Farrell, first vice-president; William H. Bell, second vice-president; Martin Kortjohn, secretary and Hamilton Howard, treasurer

The following directors were elected to serve for two years: Keith L. Baker, Ralph R. Bishop, Walter M. Cooper, Warren W. Nissley, Walter A. Staub and Frederick S. Todman. Paul L. Loewenwarter was elected to serve as a director for one year to fill a vacancy.

George M. Powell, assistant comptroller of the Guaranty Trust Co. of New York, delivered an address on "Certified statements submitted for bank credits." He explained the bankers' attitude toward statements and reports by accountants used for the purpose of obtaining credit for manufacturers and business enterprises. He said that the banker obtains information from all possible sources in addition to analyzing carefully statements submitted by accountants. Sales volume and quick assets from which will materialize funds needed to repay loans are the matters of chief interest to the commission banker, Mr. Powell said.

## **Semi-Annual Meeting of North Carolina Association**

The semi-annual meeting of the North Carolina Association of Certified Public Accountants was held at the University of North Carolina, Chapel Hill, on May 10th, 11th and 12th. Registration began at 9 o'clock, May 10th, and at 9:30 a.m. George E. Wood, president of the association, called the meeting to order. Dudley D. Carr, dean of the university's school of commerce, delivered the address of welcome. A. T. Allen, state supervisor of public instruction, responded.

A paper on the treatment of capital assets of a municipality was read by David R. Hollowell. "Accountants' certificates" was the subject of an address by John R. Wildman.

At the banquet on the evening of May 11th, Dr. D. W. Daniel, dean of the arts and science departments of Clemson College, spoke on the acquisition of happiness.

Charlotte was selected as the place for the annual meeting of the association to be held in October. The president has announced that the North Carolina Association will recommend adoption by the United States Chamber of Commerce of a resolution urging general use of the natural business year.

## **Annual Accounting Conference in Ohio**

The annual accounting conference of the college of commerce and administration of the Ohio State University in conjunction with the Ohio Society of Certified Public Accountants was held at the university in Columbus, May 18th and 19th. All sessions were open to the public.

On the afternoon of the first day Herman C. Miller, assistant professor of accounting of Ohio State University, was chairman of the session, which was held in the commerce building. R. E. Warren spoke on "The requirements and opportunities of the profession of accounting." Mr. Warren's address is summarized elsewhere in this *Bulletin*. "A description of a cost accounting system" was the subject of an address by W. B. Knuff, cost accountant of the Central Alloy Steel Corporation. L. A. Anderson, comptroller of the same company, described its executive reports. J. B. Taylor, associate professor of accounting, spoke on "The profession of accounting."

Following the addresses there was a meeting of the board of directors of the Ohio Society.

On the evening of May 18th a dinner was served at the Faculty club. J. B. Heckert, acting chairman of the department of accounting of the university, presided. A round-table discussion on the function of the controller was led by H. H. Maynard, who spoke from a marketing viewpoint, and John Younger, who presented the engineering viewpoint.

In the forenoon of May 19th, following a business meeting of the Ohio Society, another general session took place in the commerce building, at which Russell S. Willcox, assistant professor of accounting, acted as chairman. W. C. Weidler, acting dean

of the college of commerce and administration, delivered an address of welcome. H. Ezmond Smith, assistant professor of accounting, spoke on "Recent trends in internal organization." Eric L. Kohler gave an address on "Reorganization and the income tax." The programme of the department of commerce extension was described by Thomas L. Kibler, director of the department. "Replacement-value depreciation for the machine-tool industry" was the subject of an address by Thomas B. Frank, treasurer of the Cincinnati Planer Company.

Luncheon was served at Pomerene Hall. W. D. Wall, president of the Ohio Society of Certified Public Accountants, occupied the chair at the afternoon session. Howard C. Greer spoke on "The new task of the accountant," and his address was followed by informal discussion by Walter Coy and Roy T. Bell.

### **Meetings of Oregon Accountants**

A joint meeting of the Oregon Society of Certified Public Accountants and the Portland chapter of the Robert Morris Associates was held May 6th, at the University club, Portland. Dr. Arnold Bennett Hall and the Rev. Oswald W. Taylor were the speakers. A. R. Sawtell, president of the Oregon Society, and Frederick Greenwood, president of the Robert Morris Associates chapter, presided alternately.

On May 12th members of the Oregon State Society of Certified Public Accountants were guests of the local chapter of Beta Alpha Psi, a national honorary accounting fraternity, at the Oregon State College, Corvallis.

After an informal meeting on the campus in the afternoon the accountants and students attended a baseball game between the State College and the University of Oregon. In the evening Dean Bexell of Corvallis addressed the guests at a banquet. Mr. Sawtell, in an informal address, gave his idea of how students could assist the accounting profession. Conda J. Ham spoke on "Making a choice of a profession." J. G. Gillingham told the students of some of the problems of a trustee in bankruptcy. Professor C. L. Kelly spoke on the value of accountancy.

### **Pennsylvania Institute of Certified Public Accountants**

#### **PITTSBURGH CHAPTER**

A proposed code of ethics for the Pennsylvania Institute of Certified Public Accountants was the subject of discussion at a meeting of the Pittsburgh chapter on June 6th. Harry B. Scott and Richard H. Mohler led the discussion, presenting the views of the council of the institute on the proposed code.

J. M. Cumming outlined the programme for the annual meeting of the Pennsylvania Institute to be held at Bedford Springs, June 18th, 19th and 20th. It is expected that a large representation of the Pittsburgh chapter will attend the annual meeting of the institute.

### **Virginia Society of Public Accountants**

A meeting of the Virginia Society of Public Accountants was held at Roanoke, May 18th and 19th. Among the speakers were L. D. Epps, a member of the state corporation commission, C. H. Morrissett, state tax commissioner, and J. H. Shields, professor of accountancy and business economics at Duke University. Dr. Shields spoke on the duties of a comptroller. Mr. Epps gave an address on the relationship between accountants and the state corporation commission. Mr. Morrissett gave a talk on state tax laws.

The principles of the natural fiscal year and of commercial arbitration were endorsed by resolutions.

A medal fund was established by the society, to provide prizes for outstanding candidates at C. P. A. examinations.

A golf tournament for a cup offered by the Roanoke accountants was a feature of the programme of entertainment.

### **Washington Accountants Elect Officers**

At the annual meeting of the Washington Society of Certified Public Accountants held at Seattle, May 11th, the following officers were elected: Pearce C. Davis, president; C. L. Stone, vice-president; Paul R. Strout, secretary-treasurer and E. J. Calloway, director. George V. Whittle is the fifth member of the board of directors. At the



close of the fiscal year, ended April 30, 1928, the society had a total membership of 104.

### Accountants' Club of Charlotte

At a meeting of the Accountant's Club of Charlotte, North Carolina, May 26th, James E. Steere, state game supervisor, spoke on the conservation and development board of North Carolina. He told of the income from hunters' licences and the heavy losses from forest fires, and mentioned some of the diffi-

culties encountered in the enforcement of the game laws.

### Meeting of Public Accountants at Waco

G. B. Rogers spoke on the legal questions arising in the practice of public accountants, at a meeting of the Waco, Texas, Public Accountants Association on May 10th. This was the first meeting of the association and was held primarily for the purpose of organization.

## REVIEWS

### LEWIS WINTERMUTE—"ONE LESS LAW-SUIT"

Article published in *The Cleveland*, May, 1928.

Mr. Wintermute tells of a case settled by arbitration conducted by the committee on commercial arbitration of the Cleveland chamber of commerce. The two contestants had disagreed over a business transaction and suit had been entered in the court of common pleas. The two principals recognized the expense, delay and publicity entailed in a lawsuit, and asked the chairman of the committee to serve as arbitrator. A submission document was prepared and signed. A court stenographer was present at the proceedings, in addition to the arbitrator and the secretary of the committee. The principals were the only others present. No witnesses were called, and the entire proceedings took only two and one-half hours.

A settlement was made to the entire satisfaction of both parties and they left the room in friendly conversation.

The discussions were made in an informal manner, which would have been impossible in court. As a result each principal gained a clear idea of his opponent's position, and the arbitrator was enabled to acquire the greatest possible knowledge of the facts in the case.

Mr. Wintermute refers to this incident as an illustration of the value of arbitration as a substitute for lawsuits. Privacy is a particular attraction of arbitration. No publicity is given the case, and no outside persons are present except the arbitrator and the necessary witnesses. Speed is another great advantage. In many instances the proceedings are arranged, the hearing held and the award rendered in the same day, whereas a similar case might take months to be disposed of in the courts. Many commercial disputes involve intricate trade and professional questions which are completely understood only by persons who have specialized training and experience. When such experts can be obtained as arbitrators to take the place of the usual court machinery, the possibility of having the dispute decided on true merit is vastly increased, the writer says.

### GEORGE P. AULD—"THE PROSPECT IN EUROPE"

Address delivered at the Fifteenth National Foreign Trade Convention, Houston, Texas, April 25, 1928.

Mr. Auld said that although there has been a striking improvement in European conditions since the initiation of the Dawes plan, the time has been too short to warrant the assumption that the plan has completed its service to mankind by ushering in substantial and permanent improvements. The continued successful operation of the Dawes plan remains a matter of vital importance to the political and economic stability of Europe and America.

The inter-ally debt settlements, Mr. Auld said, are significant in the influence they exert on the reparation question. So long as these obligations in their present magnitude hang over the allies, it does not seem likely there will be any further revision of the reparations plan involving further concessions to Germany, such as are included in most proposed simplifications of the machinery of the Dawes plan. Mr. Auld said that in his opinion no further concessions are necessary, as the burdens on the allies are as great as those on Germany. He said the idea that the debts must be reduced because of difficulties in transferring payments across frontiers is without substantiation. The record and prospects of the Dawes plan are of the best, despite the assertions of theoretical economists that the plan is impractical, Mr. Auld said. He found no tangible arguments in the assertions that economic law will check the present method of reparation payments. Export surplus, which is apparently the only thing worth noticing, according to some economists, has never been the means of payment of international debts, said Mr. Auld. International debts arise because debtor countries possess no exports, and over long periods of years they are paid at maturity by the creation of fresh debts. Therefore, the theory that without export surplus countries can not settle their international balances in a natural way for an indefinite period has nothing to support it, according to the speaker. He asserted that if the United States in the future

decreases its exports and increases its imports it will be for reasons quite unrelated to the debt question and due solely to the matter of capital supply and demand in circumstances which America in the past as a debtor nation and Europe at the present as a debtor continent have found to be

thoroughly healthy and stimulating. Mr. Auld closed his address with a recommendation that his hearers declare their independence of doctrinaire economics and assign a somewhat higher value than is now the fashion to judgments based on experience.

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### **Fred W. Hart**

Fred W. Hart, a charter member of the American Institute of Accountants and a member of the American Association of

Public Accountants, the Institute's predecessor, died on May 3rd. He was a member of the firm of Hart & Bauer, Chicago, and was a certified public accountant of Ohio.

### **HERE AND THERE**

Anderson, Kroeger & Co., Minneapolis, announce the removal of offices from 1022 Security building to 216 Frontenac building.

Arnold, Morin & Co., 140 South Dearborn street, Chicago, announce that the practice carried on under that name will in the future be continued under the firm name of Arnold, Himmelblau & Co.

Bobick & Warshawsky, New York, announce the removal of their offices to 570 Seventh avenue.

T. M. Byxbee Co., New Haven, Connecticut, announce the removal of their New York office to the Orient building, 79 Wall street.

Frederick R. Coyle, New York, announces the removal of his main office from 55 West 42nd street to 165 Broadway.

Announcement has been made of the dissolution of partnership of William Dolge, B. H. Hicklin, George E. H. Satchell and W. P. Musaus, associated under the firm names of William Dolge & Co., San Francisco, and Musaus, Dolge & Co., Los Angeles.

William Dolge announces his continuation in practice under the firm name of William Dolge & Co., 360 Pine Street, San Francisco.

George E. H. Satchell announces the opening of offices at 369 Pine street, San Francisco, for the general practice of accountancy.

Robert Douglas & Co., Statler building, Boston, announce that Etta M. Urquhart has been admitted as a partner in the firm.

Edward H. Eisenstein announces that he has removed his office to 1501 Broadway, New York.

Howard Greenman & Co., New York, announce that they have removed their offices to 220 Broadway.

Hillman, Peters & Leary announce that they have moved their Springfield offices from the Court Square building, 31 Elm street, to the Pirnie building, 1252 Main street.

Hitchcock & Berggren announce the opening of offices at 233 Roosevelt building, 727 West Seventh street, Los Angeles.

Jasper & Herington, New York, announce the removal of their offices to 1440 Broadway.

Martin Kortjohn and Franklin W. Walker announce the formation of a partnership in Reading, Pennsylvania, with offices in the Colonial Trust Company building.

Wm. Reuben Lefferts & Co., 1311 Packard building, Philadelphia, announce that G. Henry Derrickson is now associated with the firm.

Lingley, Baird & Dixon and Henry W. Brooks, Jr., announce the affiliation of their accounting practices, with offices at 41 Maiden Lane.

George W. McGrath, Andrew Stephen Doyle and Norman F. Phair, associates of the late Paul B. Warner, announce that they will continue as a partnership, under the same firm name, Paul B. Warner & Co., the business formerly conducted by Mr. Warner.

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Park, Stevens & Co., 141 Broadway, New York, announce that Charles Griswold Bourne has become a member of the firm, which will be continued under the name of Park, Bourne & Stevens.

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Puder & Puder announce the removal of their New York offices to suite 1210, Equitable Life Insurance building, 393 Seventh avenue.

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Orrin A. Redman and J. A. Hathaway announce the formation of a partnership under the firm name of Redman, Hathaway & Co., with offices at 5 North LaSalle street, Chicago.

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J. B. Rodgers and George H. Emery announce the formation of a partnership for the practice of public accounting under the firm name of J. B. Rodgers & Co., with offices at 405-409 Stearns building, Statesville, North Carolina.

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Philip W. Rosen, New York, announces the removal of his office to 551 Fifth avenue.

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Simonoff, Peyser & Citrin, New York, announce the removal of their offices to 11 West 42nd street.

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Lester Witte & Co. announce the removal of their offices to State Bank building, 120 South La Salle street, Chicago.

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H. C. Anderson, Washington, D. C., has been appointed to the following committees of the chamber of commerce: police and fire protection and public safety, manufacturers, district finance, taxation and assessment, development of Great Falls.

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Andrew Blass has been elected secretary-treasurer of the Pittsburgh chapter of the National Association of Cost Accountants.

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W. H. Brown delivered an address on the interpretation of the asset side of the balance-sheet before the class in credits of the extension division of the university of California on April 3rd, and on April 24th he addressed students at Woodbury College on "Funds and their uses, and reserves."

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Clem W. Collins, Denver, addressed the United Drug Travelers on April 7th on taxation, and the civic and legislative council of the Denver chamber of commerce, April 23rd, on "The tax situation in Colorado."

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At a meeting of the American Association of Retail Booksellers held in Atlantic City on May 15th, James L. Dohr of New York spoke on "Accounting and finance for retail booksellers."

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G. T. Graham, of Oshkosh, has been elected president of the Central Wisconsin Association of Credit Men.

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C. L. Kelly, Oregon, addressed the Oregon Retail Jewelers' Association at a meeting held in Portland, April 19th, on "Buying jewelry to the business cycle."

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Wayne Kendrick, Washington, D. C., addressed the Woodward School for Boys, April 5th, on "Accountancy as a profession." Mr. Kendrick has been appointed divisional chairman of the Central Union Mission Drive and is a member of the educational committee of the Washington Y. M. C. A.

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At a conference of bank auditors in Detroit, May 16th, W. M. LeClear, Chicago, delivered an address on the accountants' responsibility for inventories.

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Edward C. Romine is the author of an article on the hotel industry which appeared in the 1928 edition of the *Hotel Red Book*, published June 1st.

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George A. Treadwell, New Orleans, is serving as chairman of the committee on street marking of the New Orleans Civic Council and also on the committee on traffic conditions of the chamber of commerce.

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# BULLETIN

OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS

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SERIES B, No. 51

## Annual Meeting, American Institute of Accountants

Difficulties encountered in making arrangements for the transportation of Canadian visitors to the annual meeting of the American Institute of Accountants at Buffalo next September have made necessary some slight alteration of the programme published in the *Bulletin* for June 15th, but it will remain substantially the same.

Arrangements for the annual meeting are progressing. The golf tournament will be under the direction of James J. Hastings of Newark, New Jersey, who arranged the matches at the 1926 meeting at Atlantic City. Members and associates of the Institute are urged to form teams to represent their local chapters of the Institute or their state societies in competition for the Missouri golf trophy, a cup presented by the Missouri Society of Certified Public Accountants in 1925.

In order that comfortable hotel accommodations may be assured, members and associates should send their reservations direct to the Hotel Statler in Buffalo as early as possible. The room rates are from \$3.50 to \$8.00 per diem for single rooms and from \$5.50 to \$12.00 per diem for double rooms. Special suites are available at higher prices.

All persons interested in accountancy, whether members of the Institute or not, are cordially invited to attend the open sessions of the meeting on September 18th and 19th.

## Institute Examinations

The grades of candidates for C. P. A. certificates in states or territories coöperating with the American Institute of Accountants in the examinations on May 17 and 18, 1928, were reported to the boards of accountancy concerned on June 15th. Nearly 500 candidates tried the examinations. Approximately 23 per cent passed, 18 per cent were conditioned in one subject and 59 per cent failed. Of applicants who took the same written examinations for admission to the Institute exactly 50 per cent passed and the other half failed. None was conditioned.

## Minnesota Chapter, American Institute of Accountants

At the annual meeting of the Minnesota chapter of the American Institute of Accountants, at Minneapolis, May 22nd, the following directors were elected: J. A. Boulay, A. O. Grover, R. T. Schneider, T. J. Shannon and Emil Kroeger.

Emil Kroeger was re-elected president, T. J. Shannon vice-president, and J. A. Boulay secretary-treasurer.

## Employment Exchange

In the *Bulletin* for June 15th, it was announced that the American Institute of Accountants would conduct an employment exchange to assist experienced accountants in obtaining positions with public-accounting firms.

Registration forms, which applicants for positions are required to fill out, have been printed, and cards upon which firms may indicate the kinds of assistants desired have also been prepared.

It will be the practice to publish in the *Bulletin* the qualifications, without names, of men available for employment as well as positions open at the time when copy for the magazine is sent to the printer.

As previously announced the plan applies only to experienced staff assistants. Junior accountants who have not already had a certain amount of practice will not be registered, as the bureau for placements is prepared to furnish college graduates for positions open to men of this kind.

While the Institute will not accept responsibility for statements submitted by applicants nor conduct any extensive investigation of their qualifications, it is hoped that by serving as a clearing house of information the employment exchange may be of real assistance to the profession. Firms and staff accountants are invited to take advantage of its facilities.

### Special Library Bulletin

The thirty-first special bulletin published by the library and bureau of information of the American Institute of Accountants was mailed to all members and associates with the June 15th issue of the *Institute Bulletin*. The library pamphlet contains questions and answers on accounting problems submitted by members of the Institute. The following topics are discussed: accrual of contractors' profits; manufacturing confectioners' costs; newspaper-publishing accounting; pricing inventories of scrap metals; underwriting expenses for mortgage bond issues; valuation of goodwill; valuation of licensed abstractors' business; verification of customers' securities.

Copies of the bulletin may be obtained for 10 cents each.

### Accounting Systems for Pennsylvania Institutions

Governor Fisher of Pennsylvania has ordered a new accounting system to be installed in all state-owned institutions under the department of welfare. The system was devised as a result of recent audits and is part of a programme for business-like administration of the affairs of the state government.

### Income-tax Items Used by Brokers

The *Eastern Underwriter* for April 2, 1928, contains a list of items submitted by Samuel Newberger, a member of the American Institute of Accountants, which have been used as headings by many insurance brokers in filing their income-tax returns. The items are as follows:

	Weekly	Monthly
Estimated income—com-		
missions.....	.....	.....
Expenses (est.).....	.....	.....
Rent.....	.....	.....
Telephone.....	.....	.....
Salaries of office help,		
clerks, stenographers....	.....	.....
Stationery and printing...	.....	.....
Postage.....	.....	.....
Carfares.....	.....	.....
Entertainment expense....	.....	.....
Subscriptions to trade		
journals.....	.....	.....
Dues—trade associations..	.....	.....
Gifts and gratuities.....	.....	.....
Ice and water.....	.....	.....
Towel supply.....	.....	.....
Accounting.....	.....	.....
Insurance.....	.....	.....
General expense.....	.....	.....
Repairs to equipment.....	.....	.....
Depreciation of office		
equipment.....	.....	.....
Traveling expenses.....	.....	.....
Salaries—salesmen.....	.....	.....
Commissions.....	.....	.....
Sub-brokers.....	.....	.....
Total expenses (est.).....	.....	.....

### Hospitals Adopt Cost System

A uniform system of cost accounting for state-aided hospitals of Connecticut was adopted by the Connecticut Hospital Association at a special meeting at New Haven, June 6th. The system will be used by about thirty hospitals.

### Stock Exchange Sponsors Accounting Course

Brokerage accounting will probably be one of the subjects offered by the Los Angeles Stock Exchange Institute, which is to be organized during the coming summer by the Los Angeles stock exchange. The institute will function as a training school for employees of firms which are members of the exchange and will be modeled after a similar organization sponsored by the New York stock exchange.

## **Merchandise Commitments**

Merchandise commitments constitute an item that the credit man should always have in mind when considering a financial statement, says Harvey E. Whitney in an article in *The Robert Morris Associates Bulletin* for May, 1928. Mr. Whitney is chairman of the committee on cooperation with public accountants of the Robert Morris Associates.

Most credit men have definite opinions as to conditions under which merchandise commitments should be referred to by accountants, he says, but experience has shown that not all accountants are in accord on the subject.

The article refers to a specific case where for the first time a footnote appeared on the financial statement of a dry-goods jobbing concern indicating that merchandise purchases with maturities after January 1st for spring deliveries were not included in either the merchandise inventory or accounts payable in the balance-sheet; nor were there included purchase commitments under contract upon which merchandise was undelivered as of December 31st.

Inquiry of the accountant revealed that such a note had not been incorporated in previous reports because the client, in accordance with what was considered to be trade practice, had always eliminated from inventories spring merchandise actually delivered prior to December 31st, and omitted to record invoices covering such purchases. At the time of the examination in question the fall and early winter business had been slack and in view of the depression the accountant declined to certify to the statement without the footnote cited.

Mr. Whitney points out that many concerns insist upon deliveries of such merchandise after December 31st in order that they may not be obliged to include in their inventories and current liabilities any purchase for the subsequent season. The effect of this from a credit viewpoint is almost identical to that when a firm permits delivery prior to December 31st with advanced datings but eliminates the purchases from the merchandise inventory and the accounts payable, although there may be some question as to whether the liability is as definite for balance-sheet purposes as in the latter case.

Feeling that an accountant can not justify in any circumstances an omission to a refer-

ence of merchandise actually delivered and, therefore, billed to the purchaser by the seller, Mr. Whitney says he asked of the committee on cooperation with bankers of the American Institute of Accountants a definite ruling on the following points:

(1) As to whether in the circumstances outlined the accountant is obliged to refer to the transaction.

(2) Whether he is obliged to refer to commitments under contract upon which the merchandise has not been delivered.

The following reply which he received is quoted in full in this article:

"Where merchandise for the ensuing season has been delivered to a concern prior to December 31st, it is customary either to take up the liability for such merchandise on the books and in the accounts or to state on the balance-sheet, as a footnote, the amount of such merchandise which has been billed but which has been omitted from the inventory and from the liabilities. In some cases neither of the above courses is followed, in which event the auditor in his certificate to the balance-sheet should cover the omission. This is in accordance with the best practice. Title to goods which have actually been delivered is in the purchaser, he is responsible for those goods, they are insured by him and he is actually liable for them.

"In the second case, it is not customary to take up the liability for merchandise under commitment which has not been delivered at the date of the balance-sheet. This is true not only in the dry-goods business but in the case of most other industries. In some lines of business commitments for goods which have not been received are even heavier relatively than they are in the dry-goods business. For instance, many automobile companies purchase a substantial proportion of their parts from outside sources and in many cases the companies are liable under contracts running for three or six months, or even longer. It is true that the commitment situation is quite an important element in the financial position of such a concern but the limit of the accountant's duty under the present practice is to satisfy himself that at the date of the balance-sheet there are no commitments on which there is a prospective loss which is not provided for in the accounts. For example, in the last few years, in the accounts of companies in the rubber industry it has been quite usual to find an item 'Reserve against raw-material commitments' or a reserve under some such heading, to provide for the difference between the cost and the market price of rubber under contract of purchase, the market price of which at the date of the balance-sheet is below the cost. The total amount of the commitments, however, is not shown."

## **Accountants to Study Supply and Demand in Hotel Industry**

Recognizing the need for complete statistics concerning the hotel business, a committee of the Hotel Accountants Associa-

tion, in conjunction with a similar committee of the Hotel Association of New York City, has been formed to gather data which may serve as a basis for the determination of fundamental supply and demand in hotels. In a preliminary report at a meeting of the Hotel Accountants Association, May 18th, C. B. Stoner, chairman of the committee, said that current apprehension concerning overproduction of hotels could not be justified nor overcome by the insufficient statistics now available. If the hotel industry is over-developed, if competition is so severe that a proportion of the hotels can not exist profitably, these conditions may not be proven nor dealt with intelligently until definite information on the situation is at hand.

The two committees, therefore, will endeavor to obtain the desired statistics by the issuance of a supply and demand report form to hotels in Manhattan and Brooklyn which will be requested to furnish information showing how many rooms were available and how many were rented each month since 1923. The identity of the hotels reporting will not be published.

It is felt that a complete response will enable the committees to determine the changes in conditions which have taken place in the last year and possibly to judge the tendency for the future, to estimate the prospects of older hotels in the light of the competition offered by newer ones, and to see in what parts of the city, if any, there is still room for expansion of the hotel industry.

### **Cost-Accounting System for Forest Service**

At a meeting of the fiscal agents of the United States government held at Denver, May 21st to June 8th, a plan for simplifying and improving the cost-accounting system of the United States forest service was drawn up in report form. The report will be submitted to district foresters for criticism.

Economy of administration is the first aim of the plan, which will enable supervisors to compare the costs of their work with the government standards. One hundred and seventy forest-service men participated in construction of the cost-accounting system.

### **Louisiana C. P. A. Bill Defeated**

The proposed C. P. A. law introduced in the Louisiana legislature June 4th, which was mentioned in the June *Bulletin*, was reported unfavorably by judiciary committee "C" in the house. Subsequently the bill was withdrawn.

The opposition of the Society of Louisiana Certified Public Accountants is considered largely responsible for the defeat of the bill, which would have granted C. P. A. certificates without examination to public accountants registered under the existing law.

### **Summer Accounting Course at Washington and Jefferson**

The curriculum at the summer school of Washington and Jefferson college will include a course in accounting. It will consist of lectures and laboratory work and classes will meet six times a week.

### **Italian Prince an Accountant**

The Turin syndicate of professional accountants has bestowed a diploma upon His Royal Highness Humbert of Savoy, prince of Piedmont and heir to the Italian throne, according to the Associated Press. It is made clear that this is not merely an honorary degree, but is the result of serious study on the part of Prince Humbert. He is now an accredited accountant and qualified to practise.

### **Accountant Dedicates Proceeds from Poetry to University**

F. W. Lafrentz, a member of the American Institute of Accountants and of the firm of F. W. Lafrentz & Co., has written a book of ballads called *Cowboy Stuff*, based on recollections of his early life in Wyoming. Profits from the sale of the poems will be donated to Lincoln Memorial University.

### **Accountant Speaks at Textile Association Meeting**

G. H. Emery, secretary and treasurer of the North Carolina Association of Certified Public Accountants, spoke at the annual meeting of the Southern Textile Association at Wilmington, North Carolina, which was held June 15th and 16th. Mr. Emery's subject was "The value of records."

## **Standard Coal Contract**

A standard form of contract for buyers and sellers of coal has been given consideration by representatives of the National Coal Association. The new form is a revised standard coal contract form, developed by the National Association of Purchasing

Agents, which had been in use for some time. The new form will remove certain objections previously raised by coal operators. It is expected that the revised form will be approved at a meeting to be held in the near future, according to a news release of the National Association of Purchasing Agents.

## **STATE BOARDS OF ACCOUNTANCY**

### **Iowa**

H. N. Holdsworth has been reappointed by Governor Hammill as a member of the Iowa board of accountancy for three years.

### **Minnesota**

Five candidates for certified public accountant certificates were successful in the May examinations of the Minnesota board of accountancy. They are Harry J. Carrington, Arnold E. Gronvall, Harry M. Haeusler, Lynn A. MacPherson and James Strudwick.

### **New Jersey**

The New Jersey board of accountancy has recommended that the following can-

didates be granted C. P. A. certificates by the governor: Richard H. Ashton, Ernest B. Cobb, M. W. Coffey, Louis H. Comen, Harold J. Fox, David Goldstein, Howard Edgar Jackson, B. C. Kelleher, Jacob Kesselman, Nathaniel Levine, Archie B. Marcus, Arnold B. Rosenthal, Joseph H. Ryan, Aaron S. Smith, John J. White, Harry C. Wood and Frederic Worfolk.

### **Utah**

Four candidates passed the May, 1928, C. P. A. examinations of Utah. They are Scott H. Dunham, Wilford W. King, A. G. Mann and Scott H. Partridge. A C. P. A. certificate has been issued by reciprocity to Laurence H. Pierce.

## **NEWS OF LOCAL SOCIETIES**

### **Annual Meeting, California Society**

The annual meeting of the California State Society of Certified Public Accountants was held at the California club, Los Angeles, on June 9th. The following were elected directors for the term ending May 31, 1930: R. E. Brotherton, Harry J. Cooper, F. F. Hahn, I. G. Pattinson, and H. Ivor Thomas.

Norman L. McLaren was elected president of the society for the year 1928-1929. G. M. Thompson and Harry J. Cooper were elected vice-presidents and B. W. Bours secretary-treasurer.

At the request of the California state bar association, a committee was appointed to cooperate with a committee of the bar association in the preparation of a revised draft of the California corporation laws to be submitted to the legislature for consideration.

A committee was appointed to prepare a revised draft of the by-laws of the society for submission to the membership.

### **LOS ANGELES CHAPTER**

At a regular monthly meeting of the Los Angeles chapter of the California State Society of Certified Public Accountants June 11th, the principal subject of discussion was the questionnaire on definition of earned surplus recently distributed by the special committee on definition of earned surplus of the American Institute of Accountants.

### **SAN FRANCISCO CHAPTER**

At the annual meeting of the San Francisco chapter of the California State Society of Certified Public Accountants held at the Presidio golf club on June 4th, the following officers were elected: president,



Harry J. Cooper; vice-president, Anson Herrick; secretary-treasurer, B. W. Bours. E. B. Jordan and R. E. Brotherton were elected directors.

A golf tournament was a feature of the meeting and at its conclusion prizes were presented to Walter Hood, C. W. Preston, W. Morrison, J. N. Bobbitt, J. L. Cockburn.

A special trophy was also awarded to J. W. Watson for the best suggestion for the purpose of increasing attendance at chapter meetings. Mr. Watson's suggestion recommended a programme of entertainment at regular meetings.

### **Connecticut Society of Certified Public Accountants**

The annual outing of the Connecticut Society of Certified Public Accountants was held at the Pease House, Old Saybrook, Connecticut, on June 25th. Most of the day was devoted to sports. The committee in charge consisted of William L. Keating, Frank Soule, Edwin B. Hathaway, Louis Perlysky and Herbert F. Seward.

### **District of Columbia Institute of Certified Public Accountants**

The annual meeting of the District of Columbia Institute of Certified Public Accountants occurred on June 18, 1928. The members of the Institute were guests of Wayne Kendrick for dinner at the Madrilion hotel.

The by-laws which had been voted upon by mail were adopted. These by-laws provided for an associate membership, but after discussion at the meeting it was voted to eliminate this class of membership and to make the organization one of certified public accountants only.

The reports of officers were presented. Oscar J. Bernstein and James B. Grice were elected directors for a term of three years. The meeting recorded its approval of a more general use of the fiscal or natural business year by business concerns.

Herbert L. Davis, former auditor for the supreme court of the District of Columbia, delivered an address on the functions of the accountant in bankruptcy.

On June 22nd the board of directors met and elected officers for the current year, as follows: C. Vaughan Darby, president; Howard C. Beck, vice-president; Dwight

N. Burnham, secretary-treasurer. The directors of the District of Columbia Institute are, in addition to the officers, James B. Grice, Oscar J. Bernstein, W. Gordon Buchanan and Edward M. Tyler.

### **Florida Institute of Accountants**

The annual meeting of the Florida Institute of Accountants was held at the Hotel McAllister, Miami, on June 22nd and 23rd.

The meeting was opened with an invocation offered by Harry Goldstein, after which a welcome to Miami was extended by Everest G. Sewell, mayor of the city. Francis M. Williams responded.

The report of the president, Walter Mucklow, took the form of an address on "form" and was followed by the reports of the secretary and treasurer, respectively, which showed that the membership had grown to 243 and that the finances were in a sound condition.

In accordance with action taken at former meetings, the new constitution and by-laws were finally approved and the incorporation of the institute under laws of Florida will soon be completed.

As chairman of the state board of accountancy, George H. Ford made a report of the activities of the board and explained the necessity for individual members and for the institute to coöperate with the board in punishing violations of the state accountancy law. It was the desire of all present that all charges of such violations should be energetically prosecuted through the proper channels.

At the afternoon session the following officers were elected for the ensuing year: Walter Mucklow, president; Tucker Savage, first vice-president; James B. Moore, second vice-president; Homer G. Graham, third vice-president; C. H. Goodrich, secretary, and W. E. Keen, treasurer. These officers, together with the presidents of the six local chapters which have been organized, constitute the executive committee.

A paper on surplus was read by Gordon M. Hill, after which there was discussion on several matters of immediate interest to the institute.

It was decided that no effort should be made to carry on an educational programme through printed matter, but that each chapter would endeavor to arrange with local associations of bankers, lawyers and others

for accountants to address meetings of those associations on matters of mutual interest.

The question of urging the adoption of a fiscal year other than that ending on December 31st was discussed and the following resolution was unanimously adopted:

WHEREAS, the greater portion of the business transacted in Florida is more or less seasonal in character; and

WHEREAS, this condition has caused all accountants in this state much concern for years past; and

WHEREAS, it has become a matter of habit for lawyers and others to accept the calendar year as the fiscal year for new corporations; and

WHEREAS, (a) the closing of fiscal years on December 31st finds all businesses either commencing or preparing to commence a season's business, when their staffs are fully engaged and their inventories are at, or are approaching, the maximum for the year;

(b) The officers of the treasury department are at the busiest portion of their year;

(c) The accountants are in much the same position as the federal officers and at times find difficulty in giving their clients the time necessary to obtain the best results, and

WHEREAS, all these difficulties would be removed, if fiscal years ended at various dates other than December 31st, and

WHEREAS, the American Institute of Accountants and the American Society of Certified Public Accountants have both approved the suggested change,

BE IT RESOLVED that this institute use every effort, through the public press, individual influence and any other means available, to induce the business men to close their fiscal years at some date other than December 31st.

BE IT FURTHER RESOLVED that copies of this resolution be sent to the newspapers throughout Florida, and distributed among the bankers and the members of the legal profession in the state.

There was discussion as to the best method of dealing with complaints made against a member of the institute, and it was finally decided that these might be made to a local chapter or direct to the Florida Institute. If a complaint were made to the local body, a committee of the chapter would make sufficient examination to decide whether or not there appeared to be reasonable ground for complaint and that committee might dismiss the complaint, might admonish the defendant or might refer the matter to the president of the institute. If the last-named course were adopted, the matter would be considered by the committee on professional ethics, which might dismiss the complaint or admonish the defendant or, if the charge appeared to be well founded, refer it to the executive committee of the institute, which would then sit

as a trial board, as provided in the by-laws, and try the case in the manner provided in the by-laws. The power of expulsion of a member for improper conduct lies solely with the executive committee of the Florida Institute.

It was decided that the institute should form a bureau with which staff members desiring engagements may file applications and to which firms requiring assistants may apply. The detailed work will be performed by an assistant secretary and forms for application will be prepared by a special committee to be appointed by the president.

The president was asked to appoint a special committee for the collection of statistics relating to the businesses carried on in Florida, for distribution to the members of the institute. The committee is to work in coöperation with the credit departments of the Florida banks and with the University of Florida. All members were expected to support the special committee by sending to it, on forms prepared for the purpose, information concerning as many businesses in Florida as possible. Such statements will not show in any manner the name of the firm reported nor its place of business.

The convention adjourned to meet in Tampa, Florida, on December 14 and 15, 1928.

At the banquet served at the City club, Frank B. Stoneman acted as toastmaster and Dr. A. C. Whitford delivered an address on "Florida's industrial possibilities." About 150 persons were present. During the evening a silver water pitcher and tray were presented to the president. Music was provided throughout the evening and the banquet was followed by dancing.

#### JACKSONVILLE CHAPTER

At the annual meeting of the Jacksonville chapter of the Florida Institute of Accountants, held at the Hotel George Washington on June 13th, the following officers were elected: Gordon Hill, president; B. E. James, vice-president; F. B. Colley, secretary, and P. W. Fischer, treasurer. The following directors were also elected: M. M. Abernathy, C. K. Milligan and W. J. Forney.

A discussion took place on the taxability of real-estate notes, with the result that the chapter may pass a resolution at its next

meeting favoring concerted investigation by chapters of the institute to ascertain what factors should be considered in determining fair market value of real-estate notes for tax purposes.

### **Annual Meeting, Georgia Society**

John T. McIver was elected president of the Georgia Society of Certified Public Accountants at the annual meeting on June 23rd, held at the Hotel De Soto, Savannah. James L. Respass was elected first vice-president; R. L. Holland, second vice-president; Henry F. Meyer, secretary, and Mark Larned, treasurer. The following trustees were also elected: H. T. Amason, W. H. Barnes, W. H. James, C. R. Dawson, R. H. Eaton, A. H. Eidson and T. J. O'Brien.

After the business session, musical entertainment was provided at a luncheon at the hotel. In the evening, members of the Savannah chapter of the society entertained those attending the meeting with a shore dinner at the Tybrisa pavilion.

### **Maryland Accountants Elect Officers**

The Maryland Association of Certified Public Accountants held its annual meeting June 11th at the Southern hotel, Baltimore. The following officers were elected for the ensuing year: Raymond E. North, president; Harlan Johnson, vice-president; Julian A. Jenkel, secretary, and J. R. Hutson, treasurer. Four trustees, who together with the officers compose the board of trustees, were also elected. They are Charles C. Croggon, J. Wallace Bryan, Elmer L. Hatter and Robert C. Morrow. Charles L. Hehl was elected auditor of the association. Mr. North succeeds J. Wallace Bryan as president.

### **Minnesota Society of Certified Public Accountants**

The June meeting of the Minnesota Society of Certified Public Accountants was held at the Midland Hills country club, St. Paul, June 26th. Dinner was preceded by an informal golf tournament. Successful candidates at the May C. P. A. examinations of the state were guests of the society.

A short business session was devoted almost entirely to a discussion of the report

of the committee on activities, including suggestions for a programme for future meetings. It was decided to hold the July meeting of the society at Duluth.

### **Annual Meeting of Missouri Society**

The Missouri Society of Certified Public Accountants held its annual meeting at St. Louis, June 8th. Luncheon was served at the Missouri Athletic Association and a banquet was provided at the Gatesworth hotel in the evening.

John M. Neumayer was elected president; Richard S. Wyler and A. J. Benner, vice-presidents; Edward Fraser, treasurer, and Arthur C. Smith, secretary. Miller Bailey, C. W. House and J. W. Snider are directors.

At the meeting a resolution was passed recommending the adoption by business firms of a natural business year for closing books and preparing financial statements.

#### **ST. LOUIS CHAPTER**

At a meeting held on May 24th, the following officers were elected by the St. Louis chapter of the Missouri Society of Certified Public Accountants: A. J. Saxer, president; T. F. Leonard, vice-president; J. H. Bridge, second vice-president; L. W. Tracy, secretary, and Wm. Mayors, treasurer.

### **Prizes Awarded by Accountants' Society**

The North Carolina Association of Certified Public Accountants has decided to award, annually, prizes to the two honor students of the Presbyterian Orphanage of Barium Springs, North Carolina. The gifts are to be presented in memory of the late Ellis Long Jackson. This year the awards were made by George E. Wood, president of the association, at the commencement exercises of the orphanage on June 11th.

### **Annual Meeting of Oregon Society**

The annual meeting of the Oregon State Society of Certified Public Accountants took place at the chamber of commerce, Portland, June 13th. The meeting was preceded by a dinner.

I. D. Wood was elected president for the ensuing year. R. Erickson was elected vice-president; Philip W. Janney, secretary-treasurer, and A. C. Ellis, a director.

Among the committee reports presented that of the legislative committee was of chief importance. This report dealt with an investigation of restrictive accountancy laws fostered by various state societies and it was decided that the new committee on legislation should continue the study.

Provision was made for continuing the award of prizes by the society to the outstanding students of accountancy at the University of Oregon, Oregon State College and the Oregon Institute of Technology. The annual prize consists of accountancy books worth \$25 for each student selected.

A considerable fund for the purpose of establishing an accounting library for members of the Oregon Society has been accumulated and a committee was appointed at the meeting for the purpose of selecting suitable books.

It was announced that a joint meeting of the Oregon Society, Washington State Society of Certified Public Accountants and members of the British Columbia Institute of Chartered Accountants would be held at Seattle, June 29th.

### **Pennsylvania Institute of Certified Public Accountants**

The thirty-first annual meeting of the Pennsylvania Institute of Certified Public Accountants was held at the Bedford Springs hotel, Bedford Springs, Pennsylvania, on June 18th, 19th and 20th.

This was the first time in the history of the institute that the members were asked to assemble at a summer resort in the state on neutral ground as far as geographical distribution of the larger groups of members was concerned. It was thought that such a gathering of members under one roof for two or three days would afford great opportunity to promote the spirit of professional brotherhood. It is believed that the precedent established will be followed at subsequent meetings of the institute.

On Monday, June 18th, automobile parties arrived from all sections of the state. By Monday evening some eighty-five or ninety members and guests had arrived.

On Monday evening a bridge tournament was held. On the same evening the council of the institute held its regular meeting, at which routine business was considered and new members were elected.

On the morning of June 19th, after a group photograph was taken, the members assembled for the first business meeting with the president, Gardner W. Kimball, in the chair. This meeting was devoted largely to the reports of the council and officers and of standing and special committees. All these reports reviewed in detail the various activities of the institute during the year. Upon the conclusion of this part of the business, George F. Herde, a member from Pittsburgh, gave a review of the federal revenue law of 1928.

Tuesday afternoon was devoted to golf and tennis. About thirty-six golfers were entered in the tournament and twelve members took part in the tennis matches. While these were in progress the lady golfers engaged in a putting contest on a green adjacent to the golf course. At 7:30 p.m. an informal dinner was served. Community singing enlivened the meal. During the course of the dinner prizes were distributed to the winners of the tournaments. The ladies' prizes in the bridge tournament were won by Mrs. Harry B. Scott and Mrs. James M. Cumming and the men's prizes were won by I. H. Krekstein and John C. Parry.

The winners in the tennis matches were John C. Parry and Frank W. Harris, who carried off the honors in doubles, while Joseph S. Schmidt won the prize for progressive doubles. The announcement by the committee that Elmer E. Bauer, with the low gross score in the golf tournament, had won the Thirtieth Anniversary Cup for the ensuing year was greeted with applause. Mr. Bauer's name will be the second one to be engrossed upon the cup. The winner for the low net score was I. H. Krekstein, while Harry B. Scott won the kickers' handicap prize. Mrs. O. G. Richter and Mrs. M. C. Conick were announced as the winners of the ladies' golf match and putting contest.

Following the dinner a dance took place in the ballroom. This was interrupted about 10 p.m. by a call for all to proceed to the gallery of the swimming pool. Several aquatic contests were arranged by the committee.

The final business session was held on Wednesday morning, June 20th. At this session fourteen canons of professional ethics were submitted by the committee on professional ethics. The canons were taken

up and discussed seriatim. They had been previously reviewed by the council of the institute and by the Pittsburgh and Philadelphia chapters. Following the discussion of the various articles the code with some minor changes was adopted as a whole.

Another recommendation at the business session was that bulletins be issued by the institute from time to time, setting forth its activities and other matters of interest to the members and possibly to the public.

The meeting next proceeded to the election and installation of officers, members of council and members of committees on professional ethics and nominations for the ensuing year. The following were elected: Gardner W. Kimball, president; Otto G. Richter, vice-president; Robert J. Bennett, secretary; Richard H. Mohler, treasurer, and J. M. Cumming, auditor.

*Committee on professional ethics:*

T. Edward Ross, *chairman*  
William R. Main  
William Frank Marsh  
Michael H. Sigafoos  
Frank A. Willison

*Committee on nominations:*

Horace P. Griffith, *chairman*  
J. N. Aitken, Jr.  
M. D. Bachrach  
George F. Herde  
John C. Parry

George Wilkinson and Charles S. Rockey were elected members of the council for a term of two years, ending June, 1930.

The meeting adjourned about 2 p.m. The choice of a place for the 1929 meeting was left to the council with power.

**PITTSBURGH CHAPTER**

The following committees of the Pittsburgh chapter of the Pennsylvania Institute of Certified Public Accountants have recently been appointed for the fiscal year 1928-1929:

*Public Affairs:*

Irwin C. Snyder, *chairman*, Harold R. Hersperger, August Hiller, A. Lawrence Jacobs, Thomas J. Keenan, W. F. Marsh and Edwin S. Reno.

*Speakers:*

W. W. Colledge, *chairman*, Thomas R. Corbin, James J. Dyer, Frank Wilbur Main, Richard H. Mohler, Otto G. Richter, C. C. Sheppard and William A. Wood.

*Legislation:*

J. M. Cumming, *chairman*, David A. Allen, M. C. Conick, Ernest Crowther, Ira G. Flocken, William A. Hemphill, Park H. Kelso and James Walton.

*Meetings:*

Adrian F. Sanderbeck, *chairman*, Gerald I. Collins, James J. McGonigle, W. T. Royston, Harry B. Scott, John Watt and James H. Young, Jr.

*Publicity:*

George F. Herde, *chairman*, Harry Coon, James J. Mulvihill, J. R. O'Connell, M. S. Sieger and Harry W. Watkins.

*Membership:*

M. D. Bachrach, *chairman*, James O. MacLean, Harvey L. Maury, Wilfred D. Rush, H. Ivan Sloan, C. Ross Sproat and Arthur S. Williamson.

**Banker Addresses Accountants**

The banker's opinion of certified public accountants' services was the subject of a recent address given by Connor Malott, vice-president of the Spokane and Eastern Trust Company, Spokane, Washington, before the Spokane chapter of the Washington Society of Certified Public Accountants. A round-table discussion followed his address.

During April, Paul W. Pinkerton, Chicago, delivered addresses before the Indiana Association of Certified Public Accountants, on "The accountant's task;" before the school of commerce and business administration of the University of Chicago, on "Why is a public accountant?" and at a meeting of the Michigan Association of Certified Public Accountants, on "The prevention of failures in business."

Stagg, Mather & Co. announce that Harry Hough has resumed his membership in the firm. The practice will be continued under the name of Stagg, Mather & Hough.

Charles H. Steel announces the formation of the firm of Charles H. Steel & Co., with offices at 719 Schaff building, Philadelphia, Pennsylvania.

## REVIEWS

### J. GORDON HILL—"MAKING BUDGET A GOOD PARTNER"

Article published in *The Coast Banker*, April 20, 1928.

The writer mentions the predominance of budgetary methods in governmental activities as contrasted with the affairs of the average business man. Principles of the modern budget, he said, have long been applied to problems of government in Great Britain and America, and it has been generally admitted to be a wholesome and helpful practice. Great corporations which also necessarily use complete budget systems are perhaps considered to be, on account of their size, in a class apart from smaller businesses which feel that they can not indulge in the same administrative luxuries.

Mr. Hill mentions the principle of good business that financial statements should be prepared as promptly as possible after the close of the period to which they refer, in order that they may be available soon enough to afford an exact knowledge of present conditions and to serve as a guide for the future. The budget, he says, differs from the usual financial statement chiefly in that it attempts to set forth what will take place in the future rather than to record past actions. Nevertheless, a comparison of budget forecasts with the facts when they become known will reveal variations which may be worth studying. The results of a certain policy, the difficulties which may be expected to result from it and how such difficulties may be overcome by a change in present plans are things that may be learned through budgeting. The use of a budget may also be helpful in avoiding over-expansion. The budget may be of great assistance in regard to financing in that it may reveal in advance the ability of the business to pay its current obligations.

The three factors to be determined in budgeting are sales, costs and expenses. The control of expenses is one of its most important uses, as when the expense budget is determined it limits future commitments. In budgeting sales it is necessary not only to forecast total volume for a season but to indicate the amount of sales which will be invoiced each month. Consideration of this problem naturally suggests the best method of promoting sales to a volume in excess of the minimum referred to as being necessary to defray the "fixed" expenses.

As a direct result of determination of sales volume expected the extent of buying required can be consistently predicted.

The author advocates conservatism in making estimates of future activity by budgeting—that is, estimation of sales at less and expenses at more than they are likely to be. In this way variations from the budget will be favorable rather than embarrassing.

### W. J. FORSTER—"APPRAISED VALUE OF FIXED ASSETS"

Address delivered at a meeting of the Hotel Accountants Association, New York, May 18, 1928.

The valuation of fixed assets of a hotel is a matter of concern to all who have a financial interest in the enterprise, including the creditors, and particularly the bondholders, Mr. Forster said. In a recently organized company land, buildings and equipment may be shown at cost, less a reasonable allowance for depreciation, but in an older organization where realty values have advanced considerably a balance-sheet giving only depreciated cost value is not a correct picture of the financial situation. It might show that the company could not liquidate and pay its creditors and stockholders the money they originally invested, while the fact might be that if it sold its property all obligations could be paid in full, capital contributed could be repaid and a handsome liquidating dividend distributed. A balance-sheet showing the stockholder that his capital is impaired when this is not actually the fact may induce him to sell his shares at a loss when their intrinsic value may be more than par.

The preparation of two balance-sheets might obviate the difficulty, but for many reasons a single balance-sheet is considered more practicable. Appraised value of fixed assets has not been realized and therefore accountants are unwilling to show it on the balance-sheet as an addition to earned surplus. Sometimes a notation on the balance-sheet will serve to classify the matter, but in many cases it is desired to incorporate appreciation in the accounts themselves. This may be done by setting forth the present values of fixed assets on the balance-sheet showing clearly that they are appraised values, as well as who appraised them. The increase in fixed-asset values should be shown on the contra side of the balance-sheet as unearned capital surplus, which indicates that it has not been realized. This account should never be merged with earned surplus or paid-in surplus, nor should a deficit be deducted from the unearned surplus to show a net surplus.

## OBITUARY

### Lena E. Mendelsohn

Lena E. Mendelsohn, one of the few women in the membership of the American Institute of Accountants, died on June 15th as a result of pneumonia, contracted after a surgical operation. Miss Mendelsohn was admitted to the Institute in 1919, and dur-

ing the fiscal year of 1926-1927 she occupied the office of auditor.

She was a certified public accountant of New Hampshire and a member of the firm of L. E. Mendelsohn & Co., Boston. Accounting practice had been her vocation for about twelve years. She was a member of two women's clubs.

## COURT DECISION

### **Taxation. Income tax. Obsolescence. Whether goodwill deductible as obsolescence**

An action was brought for a recovery of an income tax assessed against plaintiff for the years 1919 and 1920 and paid under protest. Plaintiff was a broker, engaged in the business of buying and selling wines and brandies. He had no capital invested except that he occasionally lent money to grape growers to finance their crops. In his income-tax returns for 1919 and 1920, he claimed that the goodwill of his business had been worth over \$90,000, but that it became obsolete by reason of national prohibition which went into effect January 16, 1920, and he allocated his loss by obsolescence to the year 1919 in the sum of about \$50,000 and in the year 1920 to about \$2,000. Section 214 (a) of the revenue act of 1918 provided that in computing net in-

come, there should be allowed as deductions: "(8) a reasonable allowance for the exhaustion, wear and tear of property used in the trade or business, including all reasonable allowance for obsolescence."

It was held that plaintiff could not recover. In the statute above quoted, allowance for obsolescence was made as to property used in trade or business, but goodwill was not property used in trade or business in the sense of the statute, nor subject to exhaustion, wear or tear. In so holding, the court followed the decision in the case of *Redwing Malt Co. v. Willcuts* decided by the U. S. circuit court of appeals for the 8th circuit on November 5, 1926. Certiorari was denied in the Redwing case by the supreme court of the United States (273 U. S. 763).

*Landsberger v. McLaughlin* (59864). U. S. circuit ct. of appeals, ninth circuit. Decided May 7, 1928.

## HERE AND THERE

E. L. Kohler & Co., Chicago, announce the admission of Frank P. Schwartz as a partner in the firm.

Edwin E. Leffler announces that he will continue the practice of public accounting under his own name at 1300 Genesee building, Buffalo, New York.

Announcement has been made of the organization of the firm of Pogson & Co., with offices at 350 Madison avenue, New York.

H. R. Robertson, Minneapolis, addressed the accounting division of South High School, March 19th, on the general subject accounting.

Shmerler, Wolfe & Tourin announce the removal of their offices to the French building, 551 Fifth avenue, New York.

Announcement has been made of the formation of a partnership under the name of Weaver, Allen, Burton & Abt with offices at 420 Genesee building, Buffalo, New York.

An article entitled "Yosemite the beautiful," by Charles H. Petersen, San Francisco, appeared in *San Francisco Business* for June 13, 1928.

Charles Weissinger, Philadelphia, has recently terminated four years' service as commissioner of the township of Haverford, Delaware County, Pennsylvania.

At a meeting of the Illinois Society of Certified Public Accountants and the local chapter of the Robert Morris Associates held April 25th in Chicago, C. Oliver Wellington, Boston, delivered an address entitled "Responsibility of the accountant for inventories."

# Bulletin Supplement

July 16, 1928.

## To Members and Associates of the American Institute of Accountants:

The board of examiners has given consideration to applications for admission to the American Institute of Accountants. Fourteen applicants took the written examinations in May, 1928, 7 passed, and 7 failed. Of those who passed, 4 are believed to be eligible for membership, and 3 for associate membership. Ten applicants for admission as members and 7 as associates were given credit for having already passed an Institute examination for a C. P. A. certificate in a coöperating state. Credit for having passed satisfactory examinations other than those of the Institute was given 1 applicant for membership, and 2 for associate membership. Two applicants for membership passed oral examinations conducted by the board. The board recommends the advancement of 5 associates to membership.

Following is a list of those whose election is recommended by the board of examiners:

### *For Advancement to Membership:*

Harry Altschuler, Chicago  
Joseph B. Baernkopf, Indianapolis  
Daniel J. Kelly, Chicago  
Charles Melvoin, Chicago  
William D. Shay, New York

### *For Admission as Members:*

Frank Ahlforth, Chicago  
Paul E. Anderson, Chicago  
Arthur Berridge, Portland, Ore.  
Harold S. Brewster, Los Angeles  
Ellwood A. Davis, Greensboro, N. C.  
Jonathan O. Dickinson, St. Louis  
Harold Warburton Ellis, San Francisco  
Richard F. Evans, Los Angeles  
Harlowe A. Harrison, Los Angeles  
George W. McIver, Jr., Philadelphia  
Paul Markson, Boston  
William I. Nicholson, Jr., Tulsa, Okla.  
Charles Ondricek, New York  
Hurlbut L. Plummer, Boston  
Ferdinand C. Remmele, Natick, Mass.  
Andrew G. Sturgeon, Milwaukee  
Dwight Williams, Okmulgee, Okla.

### *For Admission as Associates:*

Charles B. Bentley, Cambridge  
James A. Butler, Milwaukee  
Abraham M. Calmenson, St. Paul  
Harold C. Fechner, St. Louis  
Ralph W. Foster, San Francisco  
Josiah B. Heckert, Columbus, O.  
Leslie J. Hoffman, Chicago  
Donald J. Hornberger, Evanston, Ill.  
Louis D. Kork, Portland, Ore.  
Gabriel A. D. Preinreich, New York  
Alwin H. Schettler, St. Louis  
Milton McK. Stanze, St. Louis

These applicants do not become members (or associates) of the Institute until they are elected by the council which is now voting by mail ballot. If protest is to be made by any member or associate against the election of any person whose name is on the list, it should reach the offices of the Institute by August 1st.

A. P. RICHARDSON, *Secretary*



# BULLETIN

OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS

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AUGUST 15, 1928

SERIES B, No. 52

## ANNUAL MEETING, AMERICAN INSTITUTE OF ACCOUNTANTS

Arrangements for the twelfth annual meeting of the American Institute of Accountants are practically completed and the committee on meetings believes that those who attend will find this year's meeting one of the most delightful in the history of the organization.

Professor William F. Paton, of the University of Michigan, and Charles B. Couchman, chairman of the Institute's board of examiners, will deliver addresses at the technical sessions. Mr. Couchman will speak on "Limitations of the present balance-sheet." John R. Ruckstell, this year's president of the Institute, and F. H. Hurdman will speak at the session to be held jointly with the Dominion Association of Chartered Accountants at Toronto. Speeches by Canadian accountants will also be a feature of this session.

James J. Hastings, who, as already announced, is in charge of the arrangements for golf, has planned an interesting series of matches. There will also be an international tournament between the Dominion Association and the American Institute. Details of the golf programme are printed elsewhere in this *Bulletin*.

The committee on meetings has been most active in its efforts to insure the success of the meeting, and an unusually large attendance is expected.

Rate cards showing prices of available rooms at the Hotel Statler in Buffalo, which has been selected as headquarters, have been sent all members and associates with a circular letter from the committee.

The following is the revised programme of the Institute's meeting:

### *Monday, September 17th*

- 9:00 a.m. Executive committee meeting
- 10:00 a.m. Council meeting
- 1:00 p.m. Luncheon for officers and members of council as guests of Buffalo chapter, New York State Society of Certified Public Accountants
- 2:00 p.m. Golf
- 3:00 p.m. Tea (for ladies)
- 8:00 p.m. Theatre party
- 8:30 p.m. Meeting of boards of examiners

### *Tuesday, September 18th*

- 10:00 a.m. Opening session  
Invocation  
President's report  
Council report  
Paper
- 2:00 p.m. Welcome to Canadians at golf club  
Golf tournament  
Bridge at golf club for ladies
- 6:30 p.m. Dinner (Canadian visitors to be guests of Institute)

### *Wednesday, September 19th*

- 10:00 a.m. Business session  
Election of officers  
Unfinished business  
Paper
- 12:00 m. Drive to Canadian shore across Peace Bridge  
Lunch in Canada  
Drive to Niagara Falls and back to Buffalo by way of Suspension Bridge
- 7:30 p.m. Banquet

### *Thursday, September 20th*

- 9:00 a.m. Council meeting
- 2:00 p.m. Leave for Toronto to attend meeting of Dominion Association of Chartered Accountants
- Evening Dinner at Toronto

### *Friday, September 21st*

At Toronto, meeting with Dominion Association of Chartered Accountants

## Bulletin of American Institute of Accountants

The preliminary programme for the convention of the Dominion Association of Chartered Accountants is as follows:

### Tuesday, September 18th

- 8:30 a.m. Leave Toronto by Gray Line motor bus to attend convention of American Institute at Buffalo Luncheon en route or at Buffalo
- 2:00 p.m. Join members of American Institute at golf tournament
- 6:45 p.m. Dinner at Buffalo with members of American Institute attending convention
- 8:00 p.m. Leave Buffalo by motor bus for Toronto

### Wednesday, September 19th

- 9:00 a.m. Meeting of council
- 10:00 a.m. Opening session
  - Addresses of welcome
  - President's address
  - Appointment of committee on president's address
  - Appointment of registration committee
  - Appointment of auditors
  - Report of council
  - Report of secretary-treasurer
- 12:30 p.m. Adjourn. Ladies' luncheon at golf club followed by golf and bridge
- 2:30 p.m. Convention reassembles
  - Reports of constituent societies
  - Reports of C. C. A. committee
  - Reports of committee on by-laws
  - Discussion
- 5:30 p.m. Adjourn
- 7:30 p.m. Dinner dance at Parkdale canoe club

### Thursday, September 20th

- 9:30 a.m. Convention reassembles
  - Report of committee on president's address
  - Report of legislation and general purposes committee
  - Report of committee on uniformity of standards
  - Report, if any, of committee appointed to deal with matters appertaining to reciprocity between the American and Canadian societies
  - Appointment of committees:
    - a—Canadian Chartered Accountant
    - b—Legislation and general purposes
    - c—Uniformity of standards
    - d—Reciprocity between American and Canadian societies
- 11:30 a.m. Adjourn to Royal Canadian yacht club
  - Photograph to be taken of the convention
- 12:45 p.m. Luncheon at Royal Canadian yacht club
- 2:00 p.m. Convention reassembles
  - Paper
  - Discussion
  - General business

- 5:00 p.m. Adjourn
- 7:30 p.m. Annual banquet at King Edward hotel with visiting members of American Institute as our guests

### Friday, September 21st

- 9:30 a.m. Convention reassembles
  - Reception to visiting members of the American Institute of Accountants.
  - Papers:
    - a—By a member of American Institute
    - b—By a member of D. A. C. A.
  - Report of registration committee
- 12:00 noon President's luncheon to dominion council
  - Final council meeting
- 1:30 p.m. Leave King Edward hotel for Scarboro golf and country club for:
  - a—Dominion v. Ontario for challenge cup
  - b—Dominion Association v. American Institute
  - c—Bridge for those who do not play golf
- 8:30 p.m. Informal reception and introduction of new president at King Edward hotel
  - Convention adjourns

## Report of Committee on Nominations

The committee on nominations of the American Institute of Accountants has filed the following report:

TO THE AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN:

The committee on nominations, after consideration of the members whom it believes desirable for election to the respective offices, submits the following report and recommends that the nominees in the following list be elected at the annual meeting of the Institute to be held in September, 1928. These nominees have signified their willingness to serve if elected:

#### President:

Frederick H. Hurdman, New York

#### Vice-president:

Lewis G. Fisher, Rhode Island  
Albert T. Bacon, Illinois

#### Treasurer:

Andrew Stewart, New York

#### Council for five years:

R. O. Berger, Illinois  
George M. Clark, Tennessee  
E. J. Dillon, Missouri  
Elmer L. Hatter, Maryland  
J. E. MacGregor, Minnesota  
Maurice E. Peloubet, New Jersey  
Arthur W. Teele, New York

**Auditors:**

Walter L. Morgan, Pennsylvania  
Leon E. Vannais, Connecticut

Respectfully submitted for the committee on nominations,

WILL-A. CLADER, *Chairman*

**American Institute of Accountants  
Golf Tournament**

In conjunction with the programme of entertainment at the annual meeting of the American Institute of Accountants at Buffalo, New York, a golf tournament will be held on September 18th. James J. Hastings, Federal Trust Building, Newark, New Jersey, is in charge of the arrangements for the tournament and members should address inquiries and reservations to him.

The annual contest for the Missouri golf trophy presented in 1925 by the Missouri State Society of Certified Public Accountants will be a feature of the tournament. Teams of four players, representing chapters of the Institute or state societies, may compete for the cup. Each player must be a member or an associate of the Institute and also be a member of the chapter or society which he represents. The team matches will be played at medal play, eighteen holes. The team having the lowest gross score, i. e., total of the four gross scores of its players, will be declared the winner. The trophy will be held for a year by the winning chapter or society team. Scores must be kept by opponents in each instance, and players will play through the 18 holes. Entries must be received by Mr. Hastings by Monday, September 17th.

In addition to the Missouri trophy tournament, there will be prizes offered for the three lowest gross and three lowest net individual scores. A contestant playing more than one round must indicate before starting which round he wishes counted in the prize play. A player's club handicap must be given at the time of filing entry. Players without club affiliation may give their three lowest scores for 1928. No handicap will exceed 27 strokes. An entrance fee of \$3.00 for the purchase of prizes and a greens fee of \$3.00, totaling \$6.00, should be sent with entry. Prizes will be distributed at the annual banquet of the Institute.

An international golf tournament on September 21st, between representatives of the Dominion Association of Chartered Accountants and of the American Institute of Accountants, is part of the programme for the convention of the Dominion Association at Toronto.

**Coöperation with Investment  
Bankers**

Some months ago representatives of the Investment Bankers Association of America discussed with representatives of the Institute the possibility of coöperation on accounting questions arising in the presentation of financial data concerning companies offering securities for sale. After preliminary negotiations the Investment Bankers Association authorized its industrial securities committee, of which J. Augustus Barnard is chairman, to submit to a committee of the Institute matters of this nature causing a difference of opinion between members of the association and the accountants. The Institute's special committee on coöperation with bankers has been designated by the executive committee as the proper agency to deal with such matters, and it will offer a decision, or at least a clarifying opinion, in the cases presented to it by the Investment Bankers Association.

An interim report of the industrial securities committee of the association made public on June 27, 1928, includes an announcement of the plan of coöperation with the Institute. The report is reprinted in full in *The Commercial and Financial Chronicle* for July 14th, and is summarized in the *Wall Street Journal* of July 3rd. It deals with points which the industrial securities committee feels are essential in the preparation of circulars incident to industrial financing. The paragraph referring to the Institute is as follows:

"In referring to the question of balance-sheet, we are treading on dangerous and difficult ground. We do not intend to delve into this intricate and highly specialized side of industrial financing. There is, however, a word or two that could be said here on this subject. The difference between a condensed and consolidated balance-sheet is vast, yet the average investor does not always note that and is inclined to consider them identical. Therefore, care should be exercised in presenting the figures that no ambiguity can creep in. The so-called certificate of the accountants should likewise be free from misconception or ambiguity. For example, we have noted in a circular a wording that

was not clear whether the balance-sheet had been adjusted to show the present financing after the accountants had submitted their balance-sheet, or whether they had passed upon it in the adjusted form—made the adjustment themselves. In an endeavor to bring the accountants into even closer touch with the bankers, a sub-committee has been appointed from this committee who will collaborate with a committee from the American Institute of Accountants. The function of this sub-committee is to hold itself available to hear complaints, or differences of opinion, that may arise between a member and his accountants and then take it up with the committee of the Institute, for a decision, or at least a clarifying opinion. It is not presupposed that this will entail very many occasions for action, but it is felt that such contact will be of benefit to the Association."

Another excerpt from the report of interest to accountants consists of two paragraphs concerning the importance of the accounting methods of oil companies as a factor in their financial position, as follows:

"There are two main considerations which the bankers must have in mind when undertaking bond or stock issues of oil companies—management and accounting methods. The management question, of course, applies to every line of industry, but an oil company income account or balance-sheet means much or little, depending upon the accounting practices. By one method of accounting a company may show a handsome profit, and by another method the same gross income may be changed to a large deficit. Depletion and intangible drilling costs are items subject to wide latitude in treatment.

"Unfortunately, there is no uniformity of practice in this respect, so unless one has a knowledge of the 'working papers,' a report, though entirely accurate, from a technical accounting standpoint, may be quite meaningless or very misleading. The investing public is entitled to know the facts about any security which they are invited to purchase and issuing houses should see to it that their offering circulars reveal earnings after as well as before depletion and depreciation. They should also disclose whether intangible drilling costs, such as labor, etc., are charged directly against operating expenses or capitalized, to be amortized over a more convenient later period. The former method is more conservative, but the latter one is much in vogue and may be defended as quite proper. The point we wish to make at this time is that there should be no uncertainty left in the public mind as to which method is used so that there may be no opportunity for a dissatisfied purchaser of such securities to charge misrepresentation at a later date, in the event of the issue declining marketwise."

### **President of Institute Addresses Educators**

The part played by business schools in the evolution of modern business was described by John R. Ruckstell, president

of the American Institute of Accountants, at a meeting of the Business Educators Association of California, July 14th. The title of his address was "Business and business education—their evolution and mutual interests."

Mr. Ruckstell described the simplicity of business structure and procedure fifty years ago and called attention to the amazing contrasts between conditions at that time and those of the present, when mechanical appliances do a large part of the work formerly performed by hand. He mentioned by name some of the pioneers in business education and told of some amusing idiosyncrasies in early business schools. Mr. Ruckstell claimed, however, that those schools were largely responsible for correct theory in business methods. Many a concern in San Francisco, he said, obtained its first correct system of book-keeping from some business college graduate whom it employed.

He continued with an outline of the growth of American business, stressing the development of chain-store organizations, nationwide in scope, and the increasing predominance of the corporate structure. In a figurative sense business education is trying breathlessly to keep up to the demands made upon it, Mr. Ruckstell said. To equip a business college or secretarial school today requires a considerable investment, while years ago a few books and a little stationery were all that were needed to conduct a business course.

### **Election of Applicants**

In accordance with the recommendations of the board of examiners and after vote by mail by council of the Institute, the president, in the absence of protest, has declared the following applicants elected to membership as of August 1, 1928:

#### *Advanced to membership:*

Harry Altschuler, Chicago  
Joseph B. Baernkopf, Indianapolis  
Daniel J. Kelly, Chicago  
Charles Melvoin, Chicago  
William D. Shay, New York

#### *Admitted as members:*

Frank Ahlforth, Chicago  
Paul E. Anderson, Chicago  
Arthur Berridge, Portland, Ore.  
Harold S. Brewster, Los Angeles

Ellwood A. Davis, Greensboro, N. C.  
Jonathan O. Dickinson, St. Louis  
Harold W. Ellis, San Francisco  
Richard F. Evans, Los Angeles  
Harlowe A. Harrison, Los Angeles  
George W. McIver, Jr., Philadelphia  
Paul Markson, Boston  
William I. Nicholson, Jr., Tulsa, Okla.  
Charles Ondricek, New York  
Hurlbut L. Plummer, Boston  
Ferdinand C. Remmele, Natick, Mass.  
Andrew G. Sturgeon, Milwaukee  
Dwight Williams, Okmulgee, Okla.

*Admitted as associates:*

Charles B. Bentley, Cambridge, Mass.  
James A. Butler, Milwaukee  
Abraham M. Calmenson, St. Paul  
Harold C. Fechner, St. Louis  
Ralph W. Foster, San Francisco  
Josiah B. Heckert, Columbus, O.  
Leslie J. Hoffman, Chicago  
Donald J. Hornberger, Evanston, Ill.  
Louis D. Kork, Portland, Ore.  
Gabriel A. D. Preinreich, New York  
Alwin H. Schettler, St. Louis  
Milton McK. Stanze, St. Louis

### **Accountants' Index Brought up to Date**

A second supplement to the *Accountants' Index* has been published by the American Institute of Accountants. Months of labor by the librarian and staff has resulted in the indexing of accounting literature published from June, 1923, to January, 1928.

This is the third index that has been published under the endowment fund. The original *Accountants' Index*, containing 1,578 pages of references, appeared in 1920. The first supplement, of 599 pages, was printed in 1923. The new supplement contains 789 pages. It does not in any way duplicate the contents of the preceding volumes. The indexes have received the highest praise for their usefulness in organizing the entire field of accounting literature. Published books and articles on any accounting subject may be found immediately with the aid of these reference books.

The price of the latest volume is ten dollars. The complete set of three books may be purchased for twenty-five dollars.

### **Chartered Accountants Elect Officers**

At a meeting of the council of the Institute of Chartered Accountants in England and Wales, June 6, 1928, Sir Nicholas Waterhouse was elected president of the Institute and Harold Fitch Kemp was elected vice-president for the ensuing year.

### **Officers of Society of Incorporated Accountants Re-elected**

Thomas Keens and Henry Morgan have been re-elected president and vice-president respectively, for the third successive year, by the council of the Society of Incorporated Accountants and Auditors.

### **New Home for Incorporated Accountants**

The Society of Incorporated Accountants and Auditors has acquired a building on the Victoria embankment, London, known to the inhabitants of the city as "Astor House." It is a spacious and handsome building on an extremely desirable site. It is expected that the society will move its offices to the new headquarters toward the end of 1928.

### **Model Municipal Budget Law**

A model law providing for municipal budgets and outlining budgetary procedure, prepared by a committee of the National Municipal League, was published in July, 1928. The purpose of the bill is to furnish means whereby the advantages of budgetary control enjoyed by the federal government and by many states and cities may be made available to smaller political units.

The chief features of the model law provide (1) that all undertakings and financial transactions of every local government shall be included in the budget for the fiscal year; (2) that the budget document shall consist of three parts—a message and summary including comparison of the past and current year, detailed estimates of expenditures and revenue with pertinent financial data, and drafts of the appropriation, revenue and borrowing measures; (3) that total estimated expenditures shall not exceed the estimated means of financing them; (4) that departmental estimates be submitted to a budget authority for coördination as a unified plan, which shall then be submitted to the appropriation authority, according to a definite time schedule; (5) that the budget be adopted at least ten days prior to the beginning of the fiscal year; (6) that public hearings be arranged before adoption of a budget; (7) that an appropriation ordinance be enacted to make the budget operative; (8) that appropriations for operation and maintenance be made in

a lump sum, and a plan of quarterly allotments be followed to insure maximum economy; (9) that transfer by the appropriating body be permitted within funds during the last two months of the year, if approved by the budget-making authority; (10) that temporary loans for emergency may be made when properly approved, and (11) that state supervision be exercised to assure adequate provision for debt service and deficits.

### **Analyzing Retail Selling Costs**

A fifteen-page pamphlet containing an analysis of the cost of selling commodities in retail establishments, on the basis of salaries paid the sales force, the working

time of the sales force and the commodities sold, has been published by the bureau of foreign and domestic commerce, domestic commerce division, of the United States department of commerce.

### **Uniform Accounting System for Alabama Normal Schools**

At a meeting of the financial secretaries of the normal schools of Alabama on July 9th, Dr. J. C. Christensen, of the University of Michigan, explained a new accounting system used in many colleges of the country which it is believed will be adopted by the normal schools of Alabama to supersede the systems now in use.

## **STATE BOARDS OF ACCOUNTANCY**

### **Colorado**

The present personnel of the board of accountancy of Colorado consists of George Maynard, William D. Morrison and Montgomery R. Smith.

### **Illinois**

The present personnel of the Illinois board of examiners of certified public accountants consists of Harold Benington, E. H. Kohler and Herbert Pope.

### **Iowa**

At a meeting of the Iowa state board of accountancy at Des Moines, July 13th, the following officers were elected for the ensuing year: E. J. Wiedman, chairman, and E. G. Prouty, secretary-treasurer. H. N. Holdsworth is the third member of the board.

### **South Carolina**

At a meeting of the board of examiners of certified public accountants of South Carolina, July 3rd, L. L. Wilkinson was elected president for the ensuing year. M. C. Paten was elected vice-president, and George E. Olson, secretary and treasurer.

At the meeting the names of the successful candidates at the C. P. A. examinations of May 17th and 18th were announced. They are as follows: A. L. Campbell, Raymond R. Finch, C. C. McGregor and W. J. Ready.

### **Virginia**

The governor of Virginia has appointed the following members of the state board of accountancy for a term of three years: John Galleher, C. S. Goldston, J. A. Leach, William L. Prince and A. Lee Rawlings.

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During June and July Reynold E. Blight, Los Angeles, delivered seven addresses at meetings of various organizations in California. He conferred diplomas at the commencement exercises of Southwestern University, Los Angeles, June 11th. The titles of some of his addresses are "Life

insurance from an accountant's standpoint," "Philanthropy," "Education" and "The spirit of modern business." The organizations before which Mr. Blight spoke are the Monday Morning club, Masters' club, Shrine, Warren S. Harding High School, and the South West Optimists' club.

## NEWS OF LOCAL SOCIETIES

### Joint Meeting of Northwestern Accountants

Members of the Oregon State Society of Certified Public Accountants and of the Washington State Society of Certified Public Accountants assembled in joint session on Friday, June 29th, at Seattle. Delegates from the Institute of Chartered Accountants of British Columbia were also present at the meeting.

Pearce C. Davis, president of the Washington Society, occupied the chair and extended a cordial welcome to the visitors from Canada and from Oregon. W. Russell Watson, secretary of the Institute of Chartered Accountants of British Columbia, and P. W. Janney, secretary of the Oregon State Society, responded to the greeting.

A paper entitled "Depreciation as applied to the lumber industry" was read by A. L. Andrus.

A. R. Sawtell, who found it necessary to fly from Portland in an airplane in order to be present at the meeting, described the methods of transportation by air.

C. L. Stone delivered an address entitled "The problem of the public accountant."

Hugh G. Gruwell, a member of the Robert Morris Associates, spoke on "The accountant and the banker."

J. G. Gillingham spoke on the services of accountants as trustees in bankruptcy.

Luncheon was served at the Inglewood country club and the afternoon was devoted to recreation, including golf on the Inglewood links and a sight-seeing trip to the government locks, through the plant of the Stimson Mill Company and about the campus of the University of Washington.

The Olympic hotel was the scene of a banquet in the evening, when A. J. Tourtellotte spoke on "The trend of business prosperity."

A paper entitled "The junior accountant" was read by Professor E. E. Bosworth, instructor of accountancy at the Oregon Agricultural College.

Harry W. Carroll, comptroller of the city of Seattle, delivered an address on the development of the Washington Society of Certified Public Accountants.

G. F. Gyles of Vancouver offered several suggestions concerning the admission of

public accountants to practise as certified public accountants.

A. R. Sawtelle, past president of the Oregon Society of Certified Public Accountants, extended an invitation to the Washington accountants and to the Institute of Chartered Accountants of British Columbia to meet at Portland next year.

At the conclusion of the banquet there was dancing in the Venetian gardens.

### California State Society of Certified Public Accountants

#### LOS ANGELES CHAPTER

The board of directors of the Los Angeles chapter of the California State Society of Certified Public Accountants has recently adopted the following rules to govern the procedure of the complaints committee:

1. That no unsigned complaints be considered.
2. That all written complaints be filed with the secretary and referred by him to the chairman of the complaints committee.
3. That the complaints committee shall endeavor to settle all minor complaints informally, keeping a record of same.
4. That on complaints of a serious nature—
  - a. The complaints committee will interview the complainant and other witnesses and take their written statements signed under oath.
  - b. The complaints committee will either recommend a dismissal of the complaint, or the filing of an answer by the accused, and in either case certify the file with the committee's recommendation, and a formal signed complaint, to the board of directors.
  - c. If an answer be required, the secretary shall write a letter to the accused, furnish him with a copy of the complaint and allow him ten days to answer.
  - d. The answer, together with one copy thereof, shall be filed with the secretary, who shall transmit a copy thereof to the complaints committee.
  - e. The complaints committee shall recommend a dismissal, or a hearing, and shall file said recommendation, together with the copy of the answer, with the board of directors.
  - f. If the board of directors approves the hearing, the president of the chapter will set the time and place for the hearing, which shall give thirty days' notice, and the secretary will forthwith notify the accused and his attorney, if one has appeared in the proceedings, the complainant and all members of the complaints committee, and the board of directors, of the time and place of hearing.

- g. The complaints committee will represent the complainant at the hearing, unless he has his own attorney.
- h. The board of directors shall conduct the hearing, no less than four members being present.
- i. The testimony shall be taken down by a stenographer, and transcribed, unless in the opinion of the board of directors this be not necessary.
- j. Upon written request made before the hearing, the accused shall be entitled to the transcript of testimony in any proceeding against him, upon payment of the expense thereof by him.
- k. Upon the final disposition of any complaint, the secretary shall notify complainant and accused.

On behalf of the state legislative committee, which is collaborating with the state bar association committee on revision of corporate laws, the secretary of the chapter has sent to members a questionnaire seeking suggestions on features to be incorporated in proposed new corporate laws.

### **Second Bulletin Issued by Connecticut Society**

The natural business year is the subject of the second bulletin issued by the Connecticut Society of Certified Public Accountants, dated July, 1928.

The bulletin recommends the adoption of the fiscal year most convenient for each individual business and points out the advantages of such procedure as contrasted with the present system of arbitrarily closing the business year on December 31st. Bankers, lawyers and business men of the state will receive copies of the bulletin.

### **Delaware Society Elects Officers**

At a meeting of the Delaware Society of Certified Public Accountants on June 26th the following officers were elected: President, Clifford E. Iszard; vice-president and treasurer, Alfred H. Coe; secretary, Medford H. White; member of the executive committee, Will-A. Clader.

### **Florida Institute of Accountants**

#### **MIAMI CHAPTER**

H. B. Graham has been elected president of the Miami chapter of the Florida Institute of Accountants. W. J. Miscally has

been elected vice-president; C. B. Costar, secretary, and W. W. Arner, treasurer. The officers, together with H. F. Purvis, Robert Pentland and L. A. Oates, are directors.

At its last meeting the chapter passed a resolution recommending the adoption of a natural business year by business concerns in Florida.

### **New C. P. A. Law May Be Introduced in Ohio**

A recent bulletin issued by the Ohio Society of Certified Public Accountants contains an item indicating that the society may effect the introduction of an accountancy bill in the legislature of the state.

Copies of the Michigan C. P. A. law have been sent to members, who have been requested to study that act and make suggestions to the legislation committee of the society as to how the law might be adapted to the needs of Ohio.

### **Pennsylvania Institute Adopts Code of Ethics**

At the annual meeting of the Pennsylvania Institute of Certified Public Accountants on June 20th, its first official code of ethics was adopted, having previously been reviewed by the council and by the Pittsburgh and Philadelphia chapters. After discussion at the annual meeting, which resulted in some minor changes, the following canons were ratified:

Preamble. Members shall at all times uphold the honor and maintain the dignity of the profession.

1. A member may describe himself as "Member of the Pennsylvania Institute of Certified Public Accountants." A partnership, all of whose members are members of the Institute, may describe itself as "Members of the Pennsylvania Institute of Certified Public Accountants."

2. A member shall conform to the laws of the state in which he may be engaged in practice regularly or temporarily in respect to the use of the designation "certified public accountant" or other descriptive term.

3. A member shall not allow any person to represent him in practice who is not in partnership with him or a member of his staff, or who is not a regularly practising public accountant in good standing.

4. No member shall approve, sign or certify accounts, statements or other forms of accountancy work which have not been verified under the supervision of himself, or a person representing him in conformity with rule 3 of these canons. No mem-



ber shall prepare or certify any statement which contains an essential misstatement of fact or which conceals such a fact as would amount to an essential misstatement or would result in a failure to put interested parties on notice in respect to a material fact not specifically shown on such statement.

5. No member shall engage in any other occupation or business conjointly with his professional practice as a certified public accountant, which is not compatible or consistent therewith.

6. A member shall hold inviolate, as confidential, all information obtained from a client or from his records, except as permission to disclose information is obtained from the client, or as disclosure may be required by law.

7. A member shall not represent conflicting interests, except by express consent of all concerned given after a full disclosure of the facts as to the engagement.

8. No member shall undertake to render professional services on such terms or under such circumstances as would tend to impair the standing of the certified public accountant in the eyes of the business public.

9. No member shall allow or pay, directly or indirectly, to the laity, any commission, brokerage or other participation in, the fees, proceeds or profits of his professional work; neither shall he accept or receive, directly or indirectly from the laity, any commission, brokerage or other participation for professional or commercial business turned over to others as an incident to his services to clients, except with the consent of and for the benefit of the client.

10. A member shall not knowingly solicit the clients of another member by personal appeal or by letter or in any other way, or encroach upon another's professional practice. This rule shall not be construed to deny the right to render service to any person, firm or corporation specifically requesting it.

11. A member shall not offer employment directly or indirectly, to the employees of another certified public accountant without first informing the said accountant of his intent. This rule shall not be construed to prohibit negotiations with anyone, who, of his own initiative, shall apply to a member for employment.

12. No member shall advertise in a manner detrimental to the dignity of the profession.

13. Any member taking part in efforts to secure the enactment or amendment of legislation affecting the practice of the profession shall give immediate notice thereof to the secretary of the institute, who in turn will advise the council.

14. Any member violating any of the above canons or being guilty of any act or omission discreditable to a certified public accountant shall become liable to discipline under the provisions of article XI, section 1, of the by-laws.

### **Possible Regulation of Public Accounting in Texas**

At the last annual meeting of the Texas Society of Certified Public Accountants it was decided that a major matter for the consideration of the society this year

would be the possibility of legislation for the regulation of public accounting in the state. In the July issue of *The Texas Accountant*, the official bulletin of the Texas society, a questionnaire is presented to serve as a basis for obtaining the opinions of accountants in the state on the desirability of introducing a bill in the legislature, as well as on the nature of such a bill.

In asking whether or not it is the wish of the certified public accountants of Texas to proceed in this direction two important questions are presented: first, whether or not the interests of the general public would be better served by legal regulation of public accounting, and, second, whether or not a regulatory law would be constitutional.

Other matters dealt with in the questionnaire are the definition of the practice of public accounting, persons who might be registered under a new law by waiver, nature of requirements for registration, desirability or otherwise of legally recognizing two classes of public accountants, and the power, functions and composition of the board of accountancy.

A privileged-communication clause and a clause regarding the accountant's ownership of his working papers are also mentioned as matters which might be included in the new bill.

### **Washington Society of Certified Public Accountants**

#### **SEATTLE CHAPTER**

The Seattle chapter of the Washington Society of Certified Public Accountants gave a luncheon in honor of John B. Milliken, a member of the United States board of tax appeals, on July 11th. The meeting was well attended by members of the chapter and several representatives of the offices of the general counsel and of the internal-revenue agent were present.

### **Accountants' Society in Asheville**

It has been announced that a society of public accountants in Asheville, North Carolina, will probably be organized. Preliminary details were outlined at a recent meeting and W. H. Zimmerman, who was named temporary chairman, indicated that he would call another meeting soon.

## REVIEWS

JAMES L. DOHR—"A LEGAL ANALYSIS OF THE BALANCE-SHEET."

Article published in *The Accounting Review*, June, 1928.

Mr. Dohr says that the law is composed of an innumerable series of rights and duties existing between various members of society, consisting of privileges, claims and obligations of various sorts. Some of these rights and duties may be valued in terms of money, but others can not be described in this way. All these legal relations may be divided into two groups, those which are favorable and those which are onerous, from the viewpoint of the individual person affected.

If in the case of a given person there are segregated at a certain moment of time all his rights and duties susceptible of financial valuation; if they are listed separately as desirable or onerous, and if an appropriate valuation is placed on each right and duty or each group of rights and duties, the result is a summary statement of his financial condition, says the author. The excess of the aggregate valuation of desirable legal relations in units compared with that of the undesirable legal relations in units indicates the net worth or proprietary interest of the person concerned. This net worth may serve as the basis of judgment of his financial standing and as a criterion of his economic power in so far as that is based on the control of the conduct of others. It indicates the person's ability to command capital and credit, to exercise purchasing power and to produce income.

The accountant, says the author, describes this procedure as a listing of assets and liabilities to determine the net worth. Mr. Dohr points out that the accountant's terms represent substantially the units of desirable or onerous legal relations as he has outlined them. He mentions, however, the confusion that is apt to arise in the mind of a layman because of the terminology and of the forms of the statements in which accountants usually present these relationships. Efforts to personify a business as distinct from its owner and to refer to net worth as a liability of the business to its owner leads to confusion. The substitution of the term "equities" for "liabilities" is apt to be ambiguous because of a distinct connotation of the word "equity" in legal phraseology. "Liability" itself has a legal meaning different from that accorded it in accounting.

In preparation of a balance-sheet particular interest is involved in two considerations, says the author. First, there is a necessity of establishing and showing the liquidity of the assets and liabilities, that is, the degree in which they are convertible into cash. The transferability of the rights and claims should be clearly indicated in this relationship. Second, he continues, it is often necessary to show the priority of obligations and their relation to specific rights or claims in the obligor's hands. Certain types of obligation may be designated as non-specific, such as the payment of money damages as compensation for any interference or assault. In other cases specific reparation is required, as when particular stipulations in a contract must be fulfilled. In most

cases any obligation is what might be called general, which means that upon failure to perform a duty any rights or claims of a debtor may be used to give satisfaction to the creditor. This is the ordinary type of liability which appears in the balance-sheet. In certain cases, however, as in that of the ordinary bond and mortgage, the liability is limited.

Liabilities may be classified then, says the author, on the basis of their priority and their relation to specific rights in the obligor's hands, as (1) general, (2) limited, (3) general and preferred, and (4) limited and preferred. The construction of the balance-sheet should show the various types of liabilities and their relationship to specific assets whenever it exists.

NORMAN L. McLAREN—"FEDERAL INCOME TAX"

Address delivered at annual convention of the California Bankers Association, Pasadena, June 8th.

The speaker said that the revenue act of 1928 was influenced largely by political as well as economic considerations. He reminded his audience that the United States chamber of commerce has been active in an attempt to obtain a reduction of the tax rate on corporations to a maximum of 10 per cent instead of the former of 13½ per cent. Treasury experts estimated, said Mr. McLaren, that the full reduction requested would result in a treasury deficit and therefore less than one half of the reduction endorsed by the chamber was finally adopted. However, as an effort to pacify the public, the exemption allowed small corporations was increased from \$2000 to \$3000.

Mr. McLaren pointed to the repeal of the automobile tax as a particularly political move, as this tax is felt by the average voter as much as, if not more than, any other form of taxation. Mr. McLaren mentioned that although the automobile tax, originally included in the statute as a war measure, was repealed, yet the federal estate tax, which has always been resorted to as an emergency measure, has been retained for ten years after the latest war. Mr. McLaren said that the tax of 10 per cent on club dues, also originally an emergency measure, is clearly class legislation and in his opinion is the most discriminatory tax remaining in the revenue act. The raising of exemption on theatrical admissions to \$3 from the former figure of 75 cents, according to Mr. McLaren, is also probably a political effort to gain the favor of the public. The speaker mentioned the provision in the original draft of the latest revenue bill providing for an important reduction in the surtax on personal incomes between \$30,000 and \$100,000. This, however, in some way was omitted from the final act, although the increase in earned-income allowance has been increased from \$20,000 to \$30,000.

The speaker said that the law has been somewhat complicated by the insertion of special provisions which might properly have been arranged by treasury-department regulations, such as the sections devoted to teachers' retirement-fund associa-

tions, employees' associations, real-estate trusts, etc. The greater the number of special provisions, he said, the more difficult becomes the interpretation of the act. The original draft of the bill, continued the speaker, contained many administrative provisions which were highly objectionable to the business public, most of which nullified prior court decisions in favor of the taxpayers. However, the final draft of the bill eliminated practically all undesirable administrative proposals. The secrecy provision was retained in the act only after a bitter fight in the senate, where an effort was made to restore the undesirable feature of publicity of income-tax returns.

Mr. McLaren closed with the statement that the new revenue act is an excellent political measure, but otherwise not a monumental accomplishment. It is, he said, an improvement over the previous revenue laws, however, and gives promise of a simple, understandable and economically sound revenue act in the future.

#### J. R. CARTER—"COMMUNITY PROPERTY PROBLEMS"

Article published in *The Magazine of Western Finance*, May, 1928.

Under the California community-property system the law recognizes a greater degree of independence of the wife than is the case in many states, Mr. Carter says, and the purpose of his article is to indicate some of the major characteristics of the community-property system. Most confusion arises, he says, from the commingling of community and separate property, either of which alone can be clearly defined by the statute.

The community-property law is predicated on the theory that marriage, in respect to property acquired during its existence, is a partnership of

which each spouse is a member contributing equally to its prosperity and possessing equal rights to succeed to the property after dissolution.

Community property has been defined as being all goods acquired after marriage, otherwise than by gift, devise, bequests or descent. In a marriage where both parties have property of their own, the combined estates assume the following character:

1. The separate property of the husband which includes:
  - (a) Property owned by him before marriage.
  - (b) Property acquired during marriage by gift, devise or descent.
  - (c) Income, profits and the natural increase from the above described property.
  - (d) Property purchased during marriage from the proceeds of separate property.
2. The separate property of the wife, which includes property acquired in the same manner as the separate property of the husband.
3. Community property, which includes all other property acquired by the efforts of either spouse and includes the gains from business conducted by either and from contracts for service of whatever nature.

The law appoints the husband as manager of this conjugal partnership subject to limitations of his power to dispose of the community property. The only way to avoid perplexing problems is by keeping a regular record of transactions as they are consummated. The funds representing the separate property of each spouse should be kept separate in different bank accounts, and all income from separate property should be deposited likewise.

The writer outlines some of the legal difficulties which may arise from various transactions under the community-property system.

## EMPLOYMENT EXCHANGE

In accordance with invitations extended in the last two issues of the *Bulletin* the following applicants for staff positions with accounting firms have registered with the Institute. Communications intended for these applicants should be addressed to the American Institute of Accountants, Employment Exchange, 135 Cedar Street, New York. Reference to applicants should be made by the appropriate number.

No. 4A—Woman, unmarried, age 36, associate member American Institute of Accountants and C. P. A. of Utah. Experience includes three years with public accounting firm and three years as assistant treasurer of manufacturing company. Education—high school, business college and university extension work. Will accept minimum salary of \$3000 if position offers opportunity for development. Would prefer situation in western city.

No. 5A—Married man, age 44, with dependents. Senior accountant. Has practised public accounting on own account for five years and has served as auditor and comptroller, respectively, for two different corporations. No objection to travel. Prefers headquarters in New York. Salary \$60.

No. 6A—Specialist in probate accounts—estates, trusts, etc.—would like employment with public accounting firm specializing in these matters. Also has had experience in bank audits. Certified public accountant of Connecticut with twenty years' experience as secretary-treasurer of a private corporation. Has also practised public accounting at various times. Age 57. Prefers New York. Salary subject to arrangement.

No. 7A—Accountant with several years' experience with private concerns wishes to enter public accounting profession in New York. Age 23. Salary \$30.

No. 8A—Senior accountant, age 28, married, with 8 years' accounting experience is leaving Pacific coast for the east. Wishes position with large public accounting firm in New York or Chicago. Would start as semi-senior if necessary. Salary subject to arrangement. Sat for California C. P. A. examination in May, 1928; result not yet known. Good references.

### James Furse

James Furse, an associate member of the American Institute of Accountants and of the American Association of Public

The American Institute of Accountants has not made any investigations of statements submitted by these applicants and therefore can not accept responsibility for their accuracy.

Accountants, the Institute's predecessor, died on March 18, 1928. He was a certified public accountant of Georgia. At the time of his death he was on the staff of Haskins & Sells, New York.

### HERE AND THERE

Lybrand, Ross Bros. & Montgomery announce that Carl T. Keller, Boston, has been admitted as a partner in the firm.

Touche, Niven & Co. announce the removal of their Atlanta office from the Hurt building to suite 1004 Candler building.

The following paragraphs report activities of members and associates of the American Institute of Accountants:

Andrew Blass is author of articles entitled "Accountancy elevates business morals" and "Bookkeeper or accountant?" which appeared in the June and July issues of *The Pittsburgh Accountant*, respectively. Mr. Blass is chairman of the committee of editors of the 1928-1929 year book of the Pittsburgh chapter of the National Association of Cost Accountants.

Archibald Bowman, New York, has been re-appointed a member of the committee on commercial law of the Merchants Association of New York.

Norman G. Chambers spoke on income-tax problems at the annual convention of the American Institute of Banking at Philadelphia, June 19th.

Wayne Kendrick, Washington, D. C., has been made associate dean of the school of accountancy of the District of Columbia College. Mr. Kendrick has also been serving on the house committee of the City club, the fellowship committee of the

Rotary club, the educational committee of the Y. M. C. A. and the municipal finance committee and the public-utilities committee of the board of trade.

A. D. Lewis, of Casper, Wyoming, has been elected district governor of Lions International for the 15th district, which comprises the state of Wyoming and twenty-four clubs.

Samuel Newberger has been appointed a member of the bankruptcy law committee of the New York Credit Men's Association for the year 1928-1929.

G. Harvey Porter of Baltimore spoke on "Financing industry without new money" at a meeting of the National Association of Real Estate Boards, industrial division, at Louisville, Kentucky, June 20th.

Arthur LeRoy Risley, Boston, has been appointed a member of the committee on taxation of the Boston chamber of commerce.

An article by George V. Rountree, Chicago, entitled "Aids to management of canning companies through accurate accounting and cost information," has appeared in instalments in six issues of *The Canner*, beginning June 16 and ending July 21, 1928.

"Uniform cost and association activities" was the title of an address delivered by O. V. Wallin at a meeting of the Philadelphia Damp-wash Association, July 23rd.

# BULLETIN

OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS

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SEPTEMBER 24, 1928

SERIES B, No. 53

## ANNUAL MEETING, AMERICAN INSTITUTE OF ACCOUNTANTS

### Election of Officers

At the annual meeting of the American Institute of Accountants held at Buffalo, September 18 and 19, 1928, the following officers were elected unanimously:

#### *President:*

Frederick H. Hurdman, New York

#### *Vice-presidents:*

Albert T. Bacon, Illinois

Lewis G. Fisher, Rhode Island

#### *Treasurer:*

Andrew Stewart, New York

The following members of council for a term of five years were unanimously elected:

R. O. Berger, Illinois

George M. Clark, Tennessee

E. J. Dillon, Missouri

Elmer L. Hatter, Maryland

J. E. MacGregor, Minnesota

Maurice E. Peloubet, New Jersey

Arthur W. Teele, New York

Walter L. Morgan, Pennsylvania, and Leon E. Vannais, Connecticut, were elected auditors.

Two members of the committee on nominations, elected by the council at its meeting on September 17th, are William Jeffers Wilson, Pennsylvania, and James M. McConahey, Washington. At the Institute meeting on September 19th, the remaining five members of the committee were elected as follows:

B. W. Bours, California

Percival F. Brundage, Massachusetts

Allan Davies, New York

Howard E. Murray, Ohio

George Treadwell, Louisiana

At the council meeting on September 20th, the following committees were elected:

#### *Executive committee:*

Arthur H. Carter, New York

Stanley G. H. Fitch, Massachusetts

P. W. R. Glover, New York

T. Edward Ross, Pennsylvania

J. E. Sterrett, New York

The president and treasurer are members of the executive committee ex-officio.

#### *Committee on professional ethics:*

James Hall, New York, Chairman

Will-A. Clader, Pennsylvania

John F. Forbes, California

Carl H. Nau, Ohio

William Jeffers Wilson, Pennsylvania

#### *Board of examiners (for three years):*

Donald Arthur, New York

Peter S. Barton, Pennsylvania

David L. Milne, New York

### Proceedings

The addresses delivered at the open sessions on September 18th and 19th were received with great applause. Charles B. Couchman spoke on "Limitations of the present balance-sheet," and William A. Paton read a paper entitled "Special applications of discounting." Both addresses will appear in the October issue of *The Journal of Accountancy*. At the first open session Warren W. Nissley spoke on the work of the bureau for placements.

Several places were suggested for the 1929 annual meeting of the Institute. The choice was finally left to the decision of the executive committee.

## **Institute Examinations**

The next examinations of the American Institute of Accountants will be held November 15 and 16, 1928. Applications of accountants who wish to take these examinations should be submitted at once. Application forms will be sent upon request.

## **New England Regional Meeting**

A meeting of the New England region of the American Institute of Accountants will be held in November, 1928. Headquarters will probably be at the Hartford club, Hartford, Connecticut. The committee on arrangements, which is composed of Charles A. Coates, Seth Hadfield and Walter A. Musgrave, is planning a programme which it is hoped will make the meeting a memorable one. Details will probably be announced in the October *Bulletin*.

## **Morally Correct Financial Statements**

The problem of financial statements which are technically correct but morally incorrect has been the basis of recent correspondence between the chairmen of the committee on coöperation with public accountants of the Robert Morris Associates and of the special committee on coöperation with bankers of the American Institute of Accountants. An article called "Window dressing in the dark," by Harvey E. Whitney, chairman of the bankers' committee, published in the August, 1928, issue of the *Robert Morris Associates Bulletin*, embodies the results of this correspondence. The text of the article is here reprinted by permission.

One of the ever-present problems is the financial statement, technically correct, but morally incorrect, and there is no question that even accountants of the highest personal standing find this one of the most difficult problems with which they have to deal. Feeling that it would be of much interest to the membership to have a ruling from the committee on coöperation with bankers of the American Institute of Accountants, we wrote the chairman presenting certain hypothetical cases. Our letter and his reply might be summarized as noted below. It is to be assumed that the statement bears date of December 31st.

1. Q. If bills receivable or accounts receivable should be sold or some other asset item disposed of absolutely without recourse during the month of November and then during the month of January

these asset items were brought back again, would the accountant be obligated to refer to such transaction, even though, as may be noted, the concern as of December 31st had no direct or contingent liability in connection with the transaction?

A. This is a situation which is quite frequently met with. If the amounts involved materially affect the financial position of the concern, I think the accountant should refer to the matter in his certificate, or, if the client objects to this course, then he should refuse to give any certificate. This, of course, would usually mean that the accountant would lose his client. In any event, in a situation of this kind, most responsible accountants would regard as a doubtful moral risk a client who would make a practice of "window dressing" of the character referred to and might even refuse to accept any further instructions from him.

2. Q. Assume that the same transaction was put through as outlined above, but it happened that the asset was disposed of to an affiliated company which was flush in cash just prior to December 31st and that these items were carried by such affiliated company to maturity. In other words, there was in both instances noted above no legal liability, but in the latter example the items were never repurchased by the company. Also we will assume that the amount involved was a substantial one; furthermore, would the decision of the committee be influenced by the knowledge that the accountant in his own mind had satisfied himself that the position of a creditor bank would not be jeopardized by the lack of knowledge of the transaction, though naturally the accountant would be unable to deny that it was a window-dressing operation? (We advised that this question was brought up by a specific instance where the accountant justified himself for not referring to the transaction for the reason outlined, namely, that in his opinion no creditor could suffer. To be exact, this company rarely borrows any money and shows no bills payable or accounts payable on statement date, because of putting through a transaction of the character outlined. Had the full facts been presented they should have shown about \$2,500,000 of current assets, largely cash and receivables, against less than \$200,000 of debts. Furthermore, if the accountant had not been willing to meet the concern's views he would have lost the business.)

A. The second case is more difficult and turns to some extent on what is meant by "affiliated company." If the affiliation is such as to require consolidated accounts, the situation would, of course, be shown in the consolidated accounts. If the affiliated company is substantially owned or controlled by the first company, but only to an extent which would not require consolidation of the accounts, then the financial position of the first company might be adversely affected by any credit losses of the affiliated company and the point might have a material bearing on the accounts of the first company and might require mention by the accountant. If, however, it is an independent company, owned by the same interests as the first company, but not actually owned itself by the first company, I doubt if the accountant could insist that the transactions should be disclosed in his certificate. It is obvious that any loss would be suffered by the affiliated company. As a matter of fact, I believe that this

situation sometimes actually arises in the case of automobile and other finance companies, and it is difficult to see how the accountant could be required to refer to such transaction in his certificate on the accounts of the automobile company, where the company is separately owned, even if owned by the same interests, and where the finance company assumes all the credit risk.

3. Q. Again a similar case, but in this instance the concern discounted its receivables without recourse with a regular finance company.

A. I do not think that there could possibly be any criticism whatever of the accountant for not referring to the transaction in his certificate. In this case it would appear that there is no question but that the transactions arise in the ordinary course of business. Incidentally, it seems to me that the question as to whether or not a concern is in the habit of selling its accounts and notes receivable without recourse, and to whom, might very well be asked on the bank's credit statement along with the question which usually is asked as to whether or not there is any contingent liability as endorser or guarantor on accounts and notes receivable sold.

### **Remuneration in Accountancy**

The earnings of public accountants compare favorably with those of practitioners of other professions and businesses, according to figures in a pamphlet published by Alpha Kappa Psi, a national professional fraternity in commerce, as a result of a study of incomes of college graduates, conducted under the direction of Everett W. Lord, dean of Boston University. The purpose of the research was to determine the relationship of education to income, and the statistics presented are classified and analyzed with this purpose in mind, but they are interesting from another point of view in so far as they indicate the trend of financial return in specific occupations. The incomes of men in nine vocations, for example, are given in one table, classified by three age groups— young, middle-aged and mature. The highest figures in the mature group are each \$10,000, representing the median annual incomes (which are not the arithmetical averages of all incomes but supposedly the earnings of the average men in each group) of public accountants, real-estate brokers and advertising managers. The median incomes for public accountants in the young and middle-aged groups are given as \$3,600 and \$7,500, respectively, in each case the highest figure for the nine occupations under consideration. The incomes of doctors and lawyers are classified separately and divided more carefully into numerous age groups.

The highest median incomes, in both cases those of mature practitioners, are \$11,000 for lawyers and \$6,000 for physicians.

One of the highest individual incomes reported in this whole study is that of a certified public accountant earning \$22,000 a year. In an analysis of earnings of the group of men holding the degree of bachelor of business administration the income of a certified public accountant 29 years old, \$11,700, is given as next to the highest in his age group, in which the median is \$2,500. In another tabulation dealing with former students of correspondence courses, the fourth from the highest individual income, \$10,000, is that of a certified public accountant.

The study was based on 7,396 individual reports and it presents fairly conclusive evidence that the earnings of the average college graduate are far above those of the high-school graduate, whose income, in turn, distinctly surpasses that of the man whose sole education has been obtained in elementary school.

### **Regulations for California Finance Companies**

A complete annual audit by an accredited accountant is one of the requirements in new regulations for finance and mortgage companies in California which have been announced by J. M. Friedlander, commissioner of corporations, according to the *Wall Street Journal*.

It is said the new regulations have been made as a result of a survey showing that a large number of firms of this type were financially involved during the last year.

Among the new rules are provisions concerning minimum capitalization of finance companies, limited promotion ratio, restrictions on amount of commissions, minimum investment by promoter and minimum cash accumulation by the company before commencing business. Finance companies will also be required to make quarterly reports to the department; to have a complete audit made annually by an accountant approved by the department and to provide special reserves for certain purposes.

### **No Logical Fiscal Year for Radio Industry**

Factors that might have established a natural fiscal year for manufacturers of radio

equipment are rapidly disappearing, according to a statement by R. M. Klein, general manager of the Fada Radio Corporation. Beginning in 1922, after the initial boom in the radio industry, there was a distinct slump in the business from June until October. Now, however, the seasonal phase of the business is rapidly disappearing and the volume of sales is continuing practically unabated during the summer months.

### **Accountant Advocates Natural Business Year**

Arguments in favor of the adoption of a natural business year are the substance of an article by Charlton N. Carter, president of the Indiana Association of Certified Public Accountants, published in *Indianapolis Activities* for August, 1928. Mr. Carter mentions the efforts that accountants have made to effect a general adoption of a change from the arbitrary calendar year.

### **Accountant Makes Quick Trip around the World**

Emil Fischer of Tientsin, China, a member of the American Institute of Accountants, has recently completed a trip around the world which occupied only fifty days. Mr. Fischer was making no attempt to hurry his trip but it was sufficiently speedy to attract the attention of the press. The New York *Herald-Tribune* of September 5th contains an item calling attention to Mr. Fischer's journey. Coming from Tientsin, he spent three weeks in the United States, during which he visited the offices of the Institute in New York. He then sailed for Europe and spent several days in Germany, following which he proceeded by airplane to Moscow and thence across Siberia to Mukden and Tientsin.

Mr. Fischer is president of the Deutschen bank at Tientsin and one of the financial counsellors of the Chinese government. He also practises public accounting.

### **Accountants' Committee on World's Fair**

Lewis Ashman, president of the Illinois Society of Certified Public Accountants, has been appointed chairman of a committee to enlist the interest of Chicago accountants

and appraisers in the world's fair centennial celebration to be held in 1933. He has invited the following four accountants to assist him in the work: Homer L. Miller, J. Angus Steven, C. R. Whitworth and George D. Wolf.

### **Columbia University Offers Accounting Courses**

Announcement has been made that three courses in accounting will be offered by Columbia University Extension in the winter session. The subjects are auditing theory and practice, which will be conducted by K. Lanneau Baker; auditing laboratory, under the direction of Thomas W. Byrnes; and brokerage accounts, which will be conducted by Harry H. Alling.

### **American Institute of Banking Offers Accounting Courses**

The New York chapter of the American Institute of Banking has published a syllabus of courses offered in coöperation with Columbia University for the 1928-29 sessions. Among the standard courses offered are fiduciary accounting and estate administration, and savings-bank accounting. In the list of special courses are given principles of accounting, analysis of financial statements, bank accounting, bank auditing, federal income-tax procedure and advanced savings-bank accounting.

### **Cotton-mill Cost Accounting**

An outline of basic principles for predetermining costs in the manufacture of cotton textiles has recently been completed by the Cotton Textile Institute, Inc., and is being submitted to members. It is not a detailed cost manual but has been prepared as a guide to sound cost-accounting methods.

### **Accounting for the Canning Industry**

The library of the American Institute of Accountants has received a pamphlet containing a classification of accounts for the canning industry, written and promulgated by a committee of the National Canners Association.

### **Simplification of Commercial Forms**

A survey among members of the National Association of Purchasing Agents has been



instituted by Ray M. Hudson, of the United States department of commerce to determine the degree of their adherence to simplified commercial forms. Several other trade organizations and industrial concerns have reported an increasing use of the simplified invoice form approved some time ago by several organizations, including the American Institute of Accountants, and by the department of commerce.

In a statement for publication Mr. Hudson said that the federal government is using standard forms in many of its transactions wherever possible and that, as a result, considerable savings have been made. Railroads and printing establishments have been among the leaders in industry to support and practise the use of simplified, standard commercial forms and papers.

As returns are received from the survey now in progress among members of the National Association of Purchasing Agents, it is expected that the division of simplified practice of the department of commerce will release monthly tabulations of the data.

### **Bureau of Standards to Publish Magazine**

A new monthly magazine of pure and applied science is to be published by the bureau of standards of the United States department of commerce. According to a recent announcement, the first issue was scheduled to appear in July, 1928. The name of the magazine is *The Bureau of Standards Journal of Research*. It will include the bureau's research papers and critical reviews in science and technology.

## **STATE BOARDS OF ACCOUNTANCY**

### **Connecticut**

The following candidates were successful in the May, 1928, C. P. A. examinations of the Connecticut state board of accountancy: D. C. Buffum, Charles W. Church, William H. Day, Theron L. Ludington, Walter A. Musgrave and G. E. Nye.

### **Florida Board Amends Rule**

The Florida state board of accountancy has recently amended its rule dealing with the issuance of reciprocal certificates by adding a requirement that applicants for such certificates shall have resided in Florida or maintained an office for the practice of public accounting in Florida for not less than one year immediately preceding the date of application for registration.

### **Amendment to Rules of Illinois Board**

During the past year the Illinois board of examiners in accountancy has slightly changed its requirement concerning re-examination of candidates for the C. P. A. certificate.

Previously a candidate was obliged to pass in accounting theory and practice and in one other subject in order to obtain the privilege of sitting only for the remaining subject in following examinations. The revised rule provides that a candidate who passes in accounting theory and practice or in the other two subjects may be conditioned in the subject or subjects in which he failed and may take such subject or subjects only at a subsequent examination.

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Leslie, Banks & Co. announce that Lee Perkins has been admitted as a partner in the firm.

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Announcement has been made of the consolidation of the practice of Alonzo Lee Miles & Co. with that of F. W. Lafrentz & Co.

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C. Edwin Oyster announces the formation of the firm of C. Edwin Oyster & Co., with offices in the Pacific Southwest building, Fresno, California.

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Announcement has been made of the dissolution of the firm of Petersen, Carter & Co., San Francisco, as of June 30, 1928.

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J. R. Carter has opened offices at 901 Russ building, San Francisco, for practice on his own account.

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The firm of Charles H. Petersen & Co. has opened offices at 703 Market St., San Francisco.

## NEWS OF LOCAL SOCIETIES

### **Amendments to California Law May Be Introduced**

A letter from B. W. Bours, secretary of the California State Society of Certified Public Accountants, addressed to California certified public accountants, says that there is a likelihood of the introduction of an accountancy bill in the state legislature during the coming session. The letter intimates that there has been more or less formal organization of some accountants in the state whose object is to effect legislation advantageous to themselves, which might, however, materially weaken the present accountancy standards in California.

The letter urges all certified public accountants of California to join the state society in order than any undesirable legislation which may be introduced may be combated in an effective way.

### **California State Society of Certified Public Accountants**

#### **LOS ANGELES CHAPTER**

The Los Angeles chapter of the California State Society held a meeting on August 13th, at which the questionnaire on definition of earned surplus composed by a special committee of the American Institute of Accountants was discussed.

#### **SAN FRANCISCO CHAPTER**

A meeting of the San Francisco chapter of the California State Society of Certified Public Accountants was held at the Palace hotel, September 5th.

The subject of discussion was the questionnaire on definition of earned surplus issued by the special committee on definition of earned surplus of the American Institute of Accountants. Several members spoke on different aspects of the subject.

The successful candidates at the C. P. A. examinations in May, 1928, were guests of the chapter at the meeting.

### **District of Columbia Institute Resumes Weekly Luncheons**

The weekly luncheons of the District of Columbia Institute of Certified Public Accountants which had been discontinued during the summer months were resumed with

a meeting on September 5th, at the Restaurant Madrillon, Washington, D. C.

### **Tentative Programme for Massachusetts Society Meetings**

A letter from Charles F. Rittenhouse, president of the Massachusetts Society of Certified Public Accountants, to members of the society announces that there will be a departure from the usual type of programme which has distinguished the meetings of the society in the past.

Instead of the customary monthly dinner meetings with an invited speaker on each occasion, it is planned to hold perhaps only four formal meetings during the year. They will probably take place in September, December, February and May. Arrangements are being made to invite several men of national prominence to speak on technical subjects closely related to the work of the accountancy profession.

Between the four formal meetings there will be informal gatherings, not necessarily preceded by dinners, at which round-table discussions on subjects previously announced will take place. Different members of the society will preside at these meetings and will supply members in advance with a general outline of topics to be discussed. Several subjects which have already been suggested for such conferences are as follows: (1) accountants' audit reports, including general plan and arrangement of report, size and style of report, arrangement of subject matter, character of comments, balance-sheet and operating statements, arrangement of exhibits and schedules, and various other matters relating to the audit report on which the exchange of views and ideas should prove helpful; (2) auditors' certificates; (3) indexing and filing of working papers, audit reports, and correspondence; (4) accounting system, office procedure, and mechanical equipment for accountants' offices; (5) type of letter or blanks used in requesting confirmation of bank balances, loans, customers' accounts, securities, etc.; (6) mechanical equipment of an accountant's office including filing cabinets, typewriters, carbon paper, comptometers, adding machines, dictaphone, etc.; (7) duties of the

junior accountant—his qualifications and opportunities.

The letter of the president says that such conferences should serve as a clearing house of information and may facilitate the introduction of standard practice in various phases of accounting work.

### **Minnesota Society of Certified Public Accountants**

The regular July meeting of the Minnesota Society of Certified Public Accountants was held at the Northland country club, Duluth, July 27th. The subject of discussion was "Accounting in relation to the iron industry," and the principal speakers were Messrs. Culmer and Kelso, statistician of the Oliver Iron Mining Co., and auditor of the Minnesota Steel Co., respectively.

### **Missouri Society of Certified Public Accountants**

#### **KANSAS CITY CHAPTER**

At a meeting of the Kansas City chapter of the Missouri Society of Certified Public Accountants held on May 27th the following officers were elected: president, F. R. Brodie; first vice-president, Richard S. Wyler; second vice-president, Milton E. Carter; treasurer, George E. Dell; secretary, R. W. Smith. A meeting of the chapter was called for September 10th and the subject announced for discussion was the questionnaire on definition of earned surplus issued by the special committee on definition of earned surplus of the American Institute of Accountants.

### **New State Society in Nebraska**

The Nebraska Society of Certified Public Accountants filed articles of incorporation with the secretary of state on July 30, 1928.

Nebraska has had for some years an organization admitting to its membership all those who practised the profession of public accounting, but little attempt was made to discriminate between certified public accountants and uncertified practitioners. In the last few years the organization had become practically inactive.

During the latter part of 1927 the need for a stronger active organization was felt, principally for the purpose of acquainting the public with the qualifications of certified public accountants. A group of practition-

ers held a meeting to discuss the situation and as the result of their deliberations a committee was appointed to organize an association on a sound permanent basis. The committee, after considerable study, drafted a constitution and by-laws. On May 26th a meeting was held at the chamber of commerce in Omaha with a large number of practising certified public accountants of the state in attendance. The activities of the committee were ratified and articles of incorporation were prepared. Subsequently a charter was granted by the state.

The purposes of the organization are given as follows: (1) to unite in one society all accountants practising in the state of Nebraska who are holders of certified public accountant certificates or holders of accountants' certificates issued in foreign countries which have been recognized by the state board of examiners of certified public accountants for the state of Nebraska; (2) to urge and assist in the enforcement of the state law providing for the granting of certified public accountant certificates in the state of Nebraska; (3) to encourage the proper training of persons who desire to become certified public accountants; (4) to promote the study of law appertaining to accountants; (5) to secure the proper recognition of the practice of accountancy as a profession; (6) to maintain among the members of the profession a high standard of professional ethics and cooperation.

The following officers have been elected: Raymond H. Walker, president; George L. Greenfield, vice-president, and Harry E. Judd, secretary. The directors are, in addition to the officers, Everett C. Babcock, John P. Begley and Earl R. Colvert.

### **Annual Meeting of the North Carolina Association**

The ninth annual meeting of the North Carolina Association of Certified Public Accountants will be held at the Hotel Charlotte, Charlotte, October 19 and 20, 1928. A directors' meeting will be held on the 18th before the beginning of the open sessions. O. N. Hutchinson is chairman of the general arrangements committee.

### **Virginia Society Elects Officers**

At a meeting of the Virginia Society of Public Accountants at the Hotel Richmond,

Richmond, September 1st, the following officers were elected: Alvin W. Burket, president; John J. Sellers, vice-president, and James A. Rennie, secretary and treasurer. The following were elected to serve as directors in addition to the officers: A. Lee Rawlings, F. L. Worchester, L. A. Kimble and A. T. Hull.

A resolution was adopted inviting the American Institute of Accountants to hold its annual meeting in 1929 at Richmond.

It was resolved that a committee be appointed to consider the advisability of changing the name of the society to the Virginia Society of Certified Public Accountants. It was also resolved that the committee be instructed, if such a change in name be concluded desirable, to draft a new constitution and new by-laws for presentation to the society at its semi-annual meeting next spring. The following committee was appointed in accordance with the resolution: T. Coleman Andrews, chairman, A. M. Pullen, William McK. Evans, A. F. Stewart, Jr., L. A. Kimble, R. B. Jordan, and W. P. Hilton.

A draft of rules of professional conduct was presented to the members for consideration and the rules were adopted.

It was resolved that a suitable medal be designed for presentation to the candidate obtaining the highest grade in the C. P. A. examinations conducted by the board of accountancy of Virginia.

The chairman of the committee on the natural business year reported that a considerable amount of data had been collected by the committee and that plans were being formed for the initiation of an active educational campaign among business men of the state.

It was decided that the semi-annual meeting of the society would be held during May, 1929, at Virginia Beach. An announcement was made that plans would be laid for a twentieth anniversary meeting of the society, which was formed in 1909, to be held during the fall of next year, probably at the time of the annual meeting.

### **Houston Society of Public Accountants**

The Houston Society of Public Accountants held its monthly meeting August 8th. F. W. Allen presided. P. M. Morrison spoke on the relation of the accountant to the government and Mr. Allen delivered an address on the relation of the accountant to the banker.

## **REVIEWS**

### **LESTER F. BLAKE—"EXPERIENCES WITH BUDGETS TO AID MANAGEMENT"**

Article published in *N. A. C. A. Bulletin*, July 1, 1928.

Mr. Blake says that according to his experience the greatest aid of budgetary control is its correlation of the activities of one department of the business to those of all the others. He says that the various activities of the business, such as sales, finance, administration, production, purchasing, etc., constitute a chain, each link of which must be sound if the whole is to function properly.

The writer briefly summarizes the problems faced by management. The executive must manufacture the kind of products which can be sold satisfactorily and in sufficient volume. He must effect an adequate volume of sales so that he may manufacture in such quantities that economical production can be maintained. This must be done with a minimum investment in inventory and fixed assets, and borrowings must be kept at a figure where the expense involved will be commensurate with the volume of business procured. The management must also arrange a procedure whereby raw materials will be on hand in sufficient quantities to permit uninterrupted production. An organization operating efficiently in obtaining materials and in producing goods and marketing them is also the responsibility of the

management. The writer says that in many instances an improper relation of one department of the business to another has been responsible for disaster to the concern as a whole.

There are still many businesses, he says, operating on the plan that the capacity of the plant shall control the volume of product manufactured, which the selling department must dispose of regardless of the capacity of its market.

In illustrating the value of the budget in the correlation of activities Mr. Blake stipulates that the success of the budget is based almost entirely upon the accuracy of the figures which may be obtained from the accounting and cost-accounting records of the business, where a correct history of the several departments should be portrayed.

The writer gives as an illustration a specific case of a business which he investigated. The concern was in a precarious position and a study of the circumstances soon revealed that haphazard operation of various departments was largely responsible for its lack of success. The establishment of the sales quota by individual items of product, an analysis of the inventories with the sales quota in mind, the formation of a purchasing programme and a scientific study of the market were the fundamental steps in a reformation of the company which resulted in its recovery from previous difficulties and in a return to a profitable existence.

The writer says that although the management

did not use the word budget in its reorganization of activities, it was nevertheless budgeting when it composed its new programme of operations.

Mr. Blake gives another specific illustration to support his arguments that correlation of departmental activities is the greatest aid which can be obtained from budgetary control.

L. U. CRAWFORD—"SOME ESSENTIALS OF FINANCIAL PLANNING"

Article published in *The Kansas City Journal*, August 4th.

Financial planning, says Mr. Crawford, is not concerned merely with tax reduction, but chiefly with providing things at the time when they become most necessary. A long-term financial policy for a municipality is essentially a statement of its needs together with provisions for financing them. All taxing subdivisions of the government should co-operate so that the aggregate requirements for operation, for maintenance, for debt service and for public improvements may be determined. The means of providing funds should be chosen with care to avoid unduly burdening the community.

In composing such a plan a complete list of all desired improvements together with the estimated cost of each should be carefully prepared. The items should be classified in the order of their urgency and in order of their benefit to the community as a whole. Estimates should be made showing the requirements for operation, maintenance and debt service, taking into consideration the carrying charges for all new production. The amount of burden which may be borne by the community without hardship should be determined. Funds which may be made available each year under the predetermined rates should be estimated. The planner should then budget the estimated requirements and the estimated income to determine the balance available for improvements, which may be apportioned among various projects in accordance with their urgency and value.

The writer says that a good plan is one in which a group of representative citizens works in coöperation with the various governmental authorities. Such procedure is apt to inspire public confidence and induce the voters to give their approval.

CHARLES H. PETERSEN—"C. P. A. SERVICE AS INVESTMENT"

Article published in the *Coast Banker*, May 20, 1928.

The writer says that there are financial and business men who still do not fully appreciate the value of the service of a certified public accountant, partly because it is impossible to predetermine in what particular respect the accountant may be helpful.

The weaknesses, defects and errors in the accounts which he may discover are not apparent before the investigation. Mr. Petersen summarizes a few cases in which the accountant's services are of particular value, as follows: certification of balance-sheets and earnings statements for credit purposes; consultation and service in mergers, consolidations and reorganizations; installation of accounting systems; audits; review and preparation of tax returns; service as arbitrator, administrator, executor, receiver, etc.

Certain errors in financial statements due to ignorance on the part of business men, which may result in serious damage, are analyzed in the article. The writer also says that in mergers and consolidations the service of the accountant is as important as that of an attorney, as the former is the one to give effect to transactions on the books of account. The accountant's advice should eliminate many complications which may creep into such transactions.

The installation of a system of accounts requires a special skill and knowledge which are part of the public accountant's equipment. The author points out that bookkeepers and accountants employed on the office staff often overlook obvious defects because of their proximity to the work and their familiarity with it, while the independent auditor who is trained to notice flaws is more apt to find even the most obscure mistakes.

The certified public accountant, says Mr. Petersen, may cut down losses from negligence in the collection of accounts and notes receivable by reporting as a result of his audit the prospects of collection in the respective cases. The accountant's advice as to inadequate or excessive insurance coverage may save substantial sums for his clients. The moral effect of an independent audit of books and accounts strengthens discipline, stimulates neatness, punctuality and accuracy on the part of the staff. Certain provisions of the tax law, says Mr. Petersen, make necessary the experience of qualified accountants in preparing returns. Directly in the field of accountancy, the author continues, are the functions of arbitrator of business disputes, administrator or executor of estates, receiver in bankruptcy, etc., and he says that the appointment of accountants to these positions is becoming more frequent. Organization of the accounting staff of a new or reorganized business is another service which a certified public accountant may render.

The author prophesies that stockholders will soon require periodical audits by independent certified public accountants. Such examinations are recognized at the present time by progressive business men as good business practice. Even insurance companies, banks, building-and-loan associations and other organizations supervised to a degree by certain departments of state in many cases require independent audits of their books, since state examiners are primarily interested only in matters requiring attention in accordance with the law.

John R. Ruckstell spoke on the essentials of a good accounting system at a meeting of the Plumbing and Heating club of San Francisco, August 9th.

An article entitled "Values in consolidations," by Charles B. Tompkins, Los Angeles, appeared in the *Magazine of Business* for August.

## EMPLOYMENT EXCHANGE

The following applicants for positions have registered with the Institute. Inquiries concerning these applicants should be addressed to the offices of the Institute, with reference to the appropriate key number.

No. 4A—Woman, unmarried, age 36, associate American Institute of Accountants and C. P. A. Experience includes three years with New York public accounting firm and three years as assistant treasurer of New England manufacturing company. Education—high school, business college and university extension work. Salary commensurate with responsibilities.

No. 5A—Married man, age 44, with dependents. Senior accountant. Has practised public accounting on own account for five years and has served as auditor and comptroller, respectively, for two different corporations. No objection to travel. Prefers headquarters in New York. Salary \$60.

No. 6A—Specialist in probate accounts—estates, trusts, etc.—would like employment with public accounting firm specializing in these matters. Also has had experience in bank audits. Certified public accountant of Connecticut with twenty years' experience as secretary-treasurer of a private corporation. Has also practised public accounting at various times. Age 57. Prefers New York. Salary subject to arrangement.

No. 10A—Woman, associate American Institute of Accountants and certified public accountant of Massachusetts. Age 36, unmarried. University graduate. Six years' experience with public accounting firms as accountant, secretary to partner and editor of reports. Wishes position in Boston or New York. Salary \$3000-\$3500.

No. 11A—Senior accountant, age 41, member American Institute. Certified public accountant of Minnesota and chartered accountant of Scotland. Fifteen years' experience in public accounting, three years on own account, and three years as comptroller of private corporation. Salary subject to arrangement. At present residing in New Jersey.

No. 12A—Accountant, 44 years of age, with fifteen years' experience in public practice and two and one-half years as assistant treasurer and comptroller of private corporation. Member Society of Incorporated Accountants and Auditors. Seeking executive position in Europe, where he has had experience. Would accept temporary staff position in this country, preferably New York.

No. 13A—Accountant, age 38, with eleven years' public practice with well-known firms and on own account and with five years' experience as comptroller of a manufacturing company, desires comptrollership of a private corporation or managership of a branch office of a public accounting firm. Member American Institute of Accountants and certified public accountant of New York and New Jersey. Requires salary of \$12,000 with opportunities for advancement.

No. 14A—Senior accountant, age 38, with ten years' experience in public practice as a staff assistant. Has qualified to take New York C. P. A. examinations in November, 1928. Salary \$60. Prefers position in the city of New York.

The Institute has not investigated the statements made by applicants, and can not assume responsibility for their accuracy.

## COURT DECISIONS

### Federal Taxation

Income tax. Corporations. Affiliation. When corporations not affiliated under section 240, revenue acts of 1918 and 1921.

The M and the W corporations sought to recover income taxes paid by the M corporation for 1918-1921, inclusive, upon the ground that although for those years they voluntarily filed separate returns they were in fact affiliated and entitled to make consolidated returns which, had they done it, would have lessened the taxes in an amount of over \$4,000. It appeared that the authorized 100 shares of the M corporation were all issued and that during the years

involved it and six of its nine shareholders owning 70% of its stock, owned 49% to 58% of the issued stock of the W corporation. It appeared that the remaining 51% to 42% of the stock of the W corporation was owned by friends and relatives of the above-mentioned six shareholders of the M corporation.

The court held that plaintiff could not recover, for the two corporations were not affiliated during the years involved. The M corporation did not own substantially all of the stock of both corporations. The fact that friends and relatives of the above-mentioned six shareholders of the M corpo-

ration owned 51% to 42% of the stock of the W corporation did not constitute the "control" contemplated by section 240 of the revenue acts by virtue of which corporations are "affiliated" within the statutes and entitled to consolidated income-tax returns with corresponding advantages in lessened taxes. The court said that the control by the statutes intended is that which gives rise to beneficial interest and not mere exercise of authority whether legal or illegal, granted or seized, nor that permitted by reason of friendliness or relationship or the activity or neglect and violation of duty of the boards of directors. Moreover, the object of the statute is taxes proportionate to income and equality between taxpayers, to accomplish which the actual or ultimate taxpayer is ascertained by looking quite through the corporate entities. And in the course thereof if it be found that the gains and losses of several corporations accrue to or fall upon substantially the same shareholders—same taxpayers—the accounts of the corporations are balanced between themselves, to ascertain the actual gains to the common owners and upon which they should pay taxes. (*Montana Mercantile Co. and Western Wholesale Grocery Co. v. Rasmusson*, U. S. dist. court, dist. of Montana, June 22, 1928.)

In a case involving the determination of the "invested assets" of a life-insurance company under section 245(a) (5) of the revenue act of 1921 the board of tax appeals held that real estate should be included at its book value less an outstanding mortgage, and appreciation in value not shown upon the taxpayer's books but reported in the convention form of life-insurance companies to state insurance departments as non-ledger assets may not be included. A tax on capital stock "of all kinds, including common, special, and preferred, as ascertained in the manner prescribed" not assessed upon the shareholders but upon the company and paid by it is not a legal deduction from gross income under section 245(a) (6) of the revenue acts of 1921 and 1924. Petitioner issues certain life-insurance policies carrying guaranteed premium reduction coupons. Upon each premium-paying date a coupon matures which

may be turned in to the company in payment of the premium to the amount of the face value of the coupon, or if the premium is paid in full in cash the policy holder may use the coupon to purchase non-participating paid-up additions to the face of the policy, to reduce the number of premium payments, or the coupon may be collected at any time with interest. Petitioner is required to include among its liabilities an amount for the payment of unsurrendered coupons together with interest thereon.

The amount of the reserve which petitioner is required to hold for the payment of unsurrendered coupons and interest is a part of the "reserve funds" of the petitioner for the purpose of computing the legal deduction from gross income under section 245(a) (2) of the revenue acts of 1921 and 1924. (*Standard Life Ins. Co. of America v. Commissioner of Internal Revenue*, U. S. board of tax appeals, Aug. 9, 1928.)

**Excess-profits tax.** In a case dealing with a question of inventory valuation, there was involved a construction of subdivision (14), sec. 234 (a) of the revenue act approved February 24, 1919. The contention of plaintiff is that under subdivision (14) at the time of filing return for the taxable year 1918, it might file a claim in abatement as provided in that subdivision, and at that time definitely and finally revalue its inventory in conformity to the then-prevailing market prices, and claim a reduction from its net income for the taxable year 1918, based upon the difference in market prices prevailing at time of filing the return and market prices prevailing at the end of the taxable year 1918; that in redetermining the value of its inventory it might revalue only such classes of goods contained in the inventory as of November 30, 1918, upon which prices had fallen, whether the goods had been sold since November 30, 1918, or were still on hand. The court did not think it was the intention of congress to permit a definite and final redetermination of the value of the inventory for the year 1918, at the time of filing the return. Inasmuch as the record did not show and plaintiff did not claim that it sustained any loss by reason of sales from its inventory after November 30, 1918, nor due to depreciation on the portion of the

inventory on hand November 30, 1919, the court held that plaintiff had not sustained a substantial loss resulting from any material reduction (not due to temporary fluctuation)

of the value of its inventory for the taxable year 1918. (*Glover Co. v. Bladine*, U. S. district court, northern district, Iowa, July 27, 1928.)

## OBITUARY

### **William C. Canning**

William C. Canning, a member of the American Institute of Accountants since its formation in 1916 and a member of the American Association of Public Accountants before that time, died in Boston at the age of sixty-six. He was a C. P. A. of Massachusetts and was engaged in public accounting practice under his own name.

### **Eugene Greenway**

The Institute has lately been informed of the death of Eugene Greenway, a charter member. He was a C. P. A. of Maryland and a fellow of the Maryland Society of Certified Public Accountants. He was engaged in accounting practice on his own account.

### **William Pate**

William Pate, a charter member of the American Institute of Accountants, died in Scotland on August 18th. He was a certified public account of Ohio and a chartered accountant of Scotland. At the time of his

death he was in the employ of the Kerr Steamship Co., Inc.

### **William T. Sawyer**

William T. Sawyer, a charter member of the American Institute of Accountants and formerly a member of the American Association of Public Accountants, died on July 21, 1928. Mr. Sawyer was a certified public accountant of New Jersey and a member of the Society of Certified Public Accountants of the State of New Jersey. At the time of his death he was employed by the Fort Orange Paper Co. at Castleton, New York.

### **Charles H. Wright**

Notice has been received of the death of Charles H. Wright, a member of the American Institute of Accountants and of the American Association of Public Accountants, the Institute's predecessor. Mr. Wright was a certified public accountant of Massachusetts. At the time of his death he was in practice on his own account in Boston, Massachusetts.

## HERE AND THERE

It has been announced that the following firms have merged their practices with that of R. J. Beaman & Co., Cincinnati, Ohio: National Audit Association, Knoxville; Dawson, Osborn and Baggs, Atlanta; A. T. Henderson & Co., Lynchburg; Clark & Co., Charlotte; Goodyear & Co., Greenville; and Wm. H. Zimmerman, Asheville.

Howard G. Slagle, Cleveland, Ohio, announces the opening of offices in the Williamson building for the practice of public accounting under his own name.

Scovell, Wellington & Co. announce the consolidation of their practice in Chicago with that of the firm of Reckitt, Benington & LeClear. Harold Benington and Walter

M. LeClear have become general partners of Scovell, Wellington & Co.

The honorary degree of bachelor of commercial science has been conferred upon L. G. Battelle, Dayton, Ohio, by the Dayton School of Commerce and Finance in recognition of his ten years' teaching of accountancy.

C. Oliver Wellington conducted a forum discussion at the annual convention of the National Association of Cost Accountants in June. The three topics were "The thirteen-period calendar," "Depreciation on cost or replacement values," and "Accounting for variances from standard costs." On each of the three subjects there was a principal paper followed by discussion.



# Bulletin Supplement

September 24, 1928.

## To Members and Associates of the American Institute of Accountants:

The board of examiners recommended to the council, at its meeting of September 17th, the advancement of 3 associates to membership and the election, as members, of 1 applicant who had passed an oral examination and of 3 applicants who had passed satisfactory examinations other than those of the Institute. Four applicants for membership and 5 for associate membership who had already passed Institute examinations for a C. P. A. certificate were also recommended for election.

The council approved the recommendations of the board.

Following is a list of those recommended for election:

### *For Advancement to Membership:*

Harry Brick, New York  
John Edward Keough, Indianapolis  
James C. Olive, Indianapolis

### *For Admission as Members:*

Robert H. Crook, Meridian, Miss.  
George E. Driscoll, New York  
Ralph E. Heitmuller, Buffalo, N. Y.  
George P. Jackson, Kansas City, Mo.  
Warren H. Keller, Chicago  
Forrest Mathis, Dallas  
Louis C. Schulte, Baltimore  
Joseph Stine, Indianapolis

### *For Admission as Associates:*

Willard J. Graham, Chicago  
John R. Jordan, St. Louis  
Philip N. Meade, Chicago  
John M. Miller, St. Joseph, Mo.  
Lorenz A. Ristau, Mason City, Iowa

If no protest is received by October 10, 1928, against the election of any of these applicants, they will be declared elected by the president.

A. P. RICHARDSON, *Secretary*.

# BULLETIN

OF THE

## AMERICAN INSTITUTE OF ACCOUNTANTS

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OCTOBER 15, 1928

SERIES B, No. 54

### Annual Meeting

The annual meeting of the American Institute of Accountants took place at Buffalo, during the week beginning Monday, September 17, 1928.

Members of council began to arrive at the Hotel Statler on Sunday for the meeting of council the following morning and by Monday afternoon the registration of members and their guests was nearly 200. That evening a number of seats at the Erlanger theater was reserved for the Institute. Many of those who did not attend the performance took a 'bus ride to Niagara Falls.

On Tuesday morning the first open session took place. The reports presented, as well as an outline of the proceedings, will be published in the *Year-book* of the Institute. In the afternoon a golf tournament was held at Wanakah country club, where members of the Institute were joined by a large number of members of the Dominion Association of Chartered Accountants who had motored from Toronto where their own annual meeting was in progress. A tea for the ladies was given at the Statler during the same afternoon. In the evening the Canadians were guests of the Institute at a dinner served in the Chinese room of the Statler. John R. Ruckstell, president of the Institute, presided and extended a cordial welcome to the Canadian visitors. G. F. Gyles, vice-president of the Dominion Association, replied. William H. West presented prizes to the Canadian victors in the golf tournament of the afternoon. Details of the golf tournaments are given elsewhere in this *Bulletin*.

On Wednesday morning, the second open session of the meeting took place. Results

of elections at that time were announced in the September *Bulletin*. The members and their guests, after the meeting, drove to the Canadian shore. Luncheon was served at the Clifton house. The annual banquet of the Institute was held in the ballroom of the Statler that evening. There was dancing during the meal, following which remarks were made by Frederick H. Hurdman, president, by Lewis G. Fisher and Albert T. Bacon, vice-presidents, and by W. Sanders Davies, Carl H. Nau, John B. Niven, William H. West and John R. Ruckstell, past presidents of the Institute. Edward E. Gore, past president, acted as toastmaster. James J. Hastings presented prizes which had been won by members of the Institute in the golf tournaments.

On Thursday morning, September 20th, following a brief session of the council, a large number of the Institute members and guests journeyed to Toronto, where they had been invited to attend the annual banquet of the Dominion Association of Chartered Accountants at the King Edward hotel that evening. Dr. Monteith, provincial treasurer of Ontario, was the principal speaker at the dinner, and remarks were also made by several members of the Dominion Association and of the American Institute.

At the session on the following morning, Frederick H. Hurdman, newly elected president of the Institute, read a paper entitled "Accountancy in the United States and Canada," which will be published in *The Journal of Accountancy* for November. R. J. Dilworth was also a speaker at this session. H. Percy Edwards, retiring president of the Dominion Association, expressed the plea-

sure of the association at its opportunity to entertain the American guests. The afternoon was spent by Canadians and Americans at the Scarboro country club.

### **Golf at Institute Meeting**

A golf tournament for members and guests of the American Institute of Accountants was held at Wanakah country club, Buffalo, New York, on Tuesday afternoon, September 18th. Thirty-six members of the American Institute of Accountants and twenty-four members of the Dominion Association of Chartered Accountants entered the contest.

The match between teams representing state societies or chapters of the Institute for possession of the Missouri golf trophy was won by the Massachusetts team. The gross scores of the team were as follows: G. W. MacDow, 80; R. D. Seamans, 87; P. F. Brundage, 90, and C. O. Wellington, 95: total gross score, 352.

The individual prizes for members of the American Institute of Accountants were won as follows: First low gross—G. W. MacDow, 80; second low gross—E. L. Barette, 84; first low net—H. S. Chase, 94-20-74; second low net—F. H. Hurdman, 95-20-75; third low net—H. G. Crockett, 97-22-75.

Prizes offered for members of the Dominion Association of Chartered Accountants were won by G. G. Mundie with the low gross score of 84, and by W. J. McDonald, whose handicap of 12 gave him the low net score of 73.

At a golf tournament held at the Scarboro country club, Toronto, on September 21st, at which members of the Institute were guests of the Dominion Association of Chartered Accountants, P. F. Brundage won the first prize with a low gross score of 94. Harvey S. Chase won the prizes for second low gross, with 96, and for low net with 76. In a putting contest on the same day, C. O. Wellington won first place with 32 putts on 18 greens and Mr. Chase won second place with 33 putts.

### **Election of Applicants**

At its meeting on September 17th the council of the American Institute of Accountants approved the recommendations of the board of examiners for the election of

certain applicants for membership and associate membership and for advancement of several associates to membership. In the absence of protest the president declared these applicants elected on October 10th. Their names are as follows:

#### *Advanced to Membership:*

Harry Brick, New York  
John Edward Keough, Indianapolis  
James C. Olive, Indianapolis

#### *Admitted as Members:*

Robert H. Crook, Meridian, Miss.  
George E. Driscoll, New York  
Ralph E. Heitmuller, Buffalo, N. Y.  
George P. Jackson, Kansas City, Mo.  
Warren H. Keller, Chicago  
Forrest Mathis, Dallas  
Louis C. Schulte, Baltimore  
Joseph Stine, Indianapolis

#### *Admitted as Associates:*

Willard J. Graham, Chicago  
John R. Jordan, St. Louis  
Philip N. Meade, Chicago  
John M. Miller, St. Joseph, Mo.  
Lorenz A. Ristau, Mason City, Iowa

### **Institute Examinations**

The written examinations of the American Institute of Accountants will be held Thursday and Friday, November 15 and 16, 1928. The schedule is as follows:

#### *November 15th:*

9 a.m. to 12:30 p.m.—Auditing  
1 p.m. to 6 p.m.—Accounting theory and practice, part I.

#### *November 16th:*

9 a.m. to 12:30 p.m.—Commercial law  
1 p.m. to 6 p.m.—Accounting theory and practice, part II.

### **New England Regional Meeting**

The New England regional meeting of the American Institute of Accountants will be held at the Hartford club, Hartford, Connecticut, on Friday, November 23rd. A technical session will be held at 11 a.m., at which papers will be read by members of the Institute. It is expected that speakers at the afternoon session will deal with subjects less technical but of general interest to the profession.

A banquet will be held in the evening at which appropriate entertainment will be provided.

Everyone interested in accountancy, whether a member of the Institute or not, is cordially invited to attend the meeting.

### **Institute Members Invited to Robert Morris Associates Meeting**

All members and associates of the American Institute of Accountants are invited to attend a session of the mid-year meeting of the Robert Morris Associates at the Hotel Cleveland, Cleveland, Ohio, on Tuesday, October 30th. The invitation was sent the secretary of the Institute by Alexander Wall, secretary of the bankers' organization, with a request that attention be drawn to it in this *Bulletin*.

It is proposed to devote the morning session of the bankers' meeting on Tuesday, October 30th, to discussion of subjects which are of great importance to both accountants and bankers. Henry B. Fernald and Charles B. Couchman, both members of the Institute, have agreed to deliver addresses on "Accountants' certificates" and "Requirements of a balance-sheet audit," respectively. Several officers of the Institute will be present and it is the hope of the Robert Morris Associates that many Institute members will attend so that the discussion may be fairly representative of the accountancy profession.

### **President of Institute to Address North Carolina Accountants**

Frederick H. Hurdman, president of the American Institute of Accountants, has accepted an invitation to speak at the ninth annual meeting of the North Carolina Association of Certified Public Accountants, October 19th. The meeting is to be held at the Hotel Charlotte, Charlotte, North Carolina, and will occupy three days, beginning October 18th. The subject of Mr. Hurdman's address will be "No-par-value stock and its relationship to asset valuations."

### **Institute Members Invited to All-day Session of New York State Society**

An invitation has been extended to all members and associates of the American Institute of Accountants to attend an all-day and evening conference of the New York State Society of Certified Public Accountants which will be held at the

Waldorf-Astoria hotel, New York, on October 23rd. Business will occupy the morning. During the afternoon session C. O. Wellington and M. E. Peloubet will read papers on accountants' responsibility for inventory verification, which will be followed by discussion. Robert H. Montgomery will speak at the evening session on "What does the future hold for accountants in tax service?" Discussion of the address will be led by Joseph J. Klein.

### **Special Applications of Discounting**

At the annual meeting of the American Institute of Accountants it was resolved that the paper entitled "Special applications of discounting," read by Professor William A. Paton of the University of Michigan, should be reprinted and made available in pamphlet form at a price not exceeding the cost of production.

Accordingly, reprints of the address have been made and are now available at 18 cents each. Orders should be addressed to the Institute, 135 Cedar Street, New York. The paper was printed in *The Journal of Accountancy* for October, 1928.

### **Depreciation Studies by Bureau of Internal Revenue**

The Institute's special committee on procedure has been in correspondence with the bureau of internal revenue with reference to the bureau's studies of depreciation and maintenance charges. At the council meeting on September 17th the committee recommended that the text of a pamphlet issued by the treasury department with reference to the bureau's research on the subject be reprinted in an Institute publication for the information of members. The matter is therefore reproduced in this *Bulletin*. The special committee on procedure would be glad to receive any criticism of the material which members of the Institute may care to make.

The text of the pamphlet follows:

#### **DEPRECIATION STUDIES of the**

bureau of internal revenue undertaken with the voluntary coöperation of organizations nationally representative of various industries or branches of industries

#### **Introductory**

The commissioner of internal revenue has authorized the initiation of studies of depreciation and

maintenance charges with a view to the adoption of a definite procedure in the future audit of tax returns. The results of such studies will be authorized for use only in the preparation and audit of tax returns filed after date of publication of such results. These studies will be undertaken solely upon a basis of the voluntary coöperation of taxpayers with the bureau of internal revenue in reaching mutually beneficial conclusions.

Depreciation for income-tax purposes is defined as the gradual exhaustion of the usefulness of property employed in the trade or business of a taxpayer, such exhaustion comprising wear and tear, decay or decline from natural causes, and various forms of obsolescence such as are attributable to the normal progress of the art, inadequacy to the growing needs of business, and the necessity of replacement by new inventions. (Articles 161 and 162, *Regulations* 69.)

The commissioner of internal revenue and the taxpayers or associations of taxpayers in certain industries have agreed upon standard rates of depreciation as reasonable for major items of plant and equipment used in those particular industries, and the preparation and audit of the returns of such taxpayers have been greatly simplified and expedited by these agreements. The present studies will extend similar agreements to the taxpayers of other industries as rapidly and completely as possible.

The scope of these studies embraces physical assets alone; information neither being requested nor desired with respect to the depreciation of patent rights, goodwill, leases or other tangible or intangible assets not of a physical character.

#### *Equity and Simplification*

##### *the Objects of the Bureau of Internal Revenue*

The results which are anticipated from studies of depreciation and maintenance are: greater equity in the collection of income taxes imposed by the several revenue acts and simplification of the preparation and audit of tax returns with consequent saving of material amounts both to the taxpayer and to the government. The prime objective of the present studies is greater equity in tax collection, but an important secondary consideration will be the savings of substantial amounts both to the government and to the taxpayer through the elimination of avoidable disputes. It is obviously impossible for several thousand income-tax auditors and revenue agents to exercise similar judgment in the review of tax returns, particularly as the auditor or revenue agent in many instances has not had the advantage of experience in the industry for which he is auditing or examining a return. The publication of average rates of depreciation, by items of plant and equipment, by industries, is essential to the elimination of personal inexperience and error, either by representatives of the taxpayer or of the government.

#### *Miscellaneous Applications of Results of Studies*

Many industries anticipate that the determination and publication of standard rates of depreciation will be even more important for other business purposes than for the preparation and audit of income-tax returns. One service will be to make information available to the members of the industry who are making inadequate provision for depreci-

ation. Every industry has such members who do not consider depreciation in computing production costs and selling prices, and these members are undesirable competitors before they are eliminated by capital consumption and credit exhaustion. It has been a recent practice of many fire-insurance adjusters to ask for a copy of the last income-tax return as an aid in computing depreciation rates in connection with fire losses; banks are requiring careful analyses of depreciation accounts in connection with financing; and other phases of normal business activity will be benefited by published standards of depreciation based upon the aggregate experience and opinion of an industry.

#### *Initiation and Conduct of a Depreciation Study*

Studies of depreciation and maintenance are now being undertaken by the bureau of internal revenue with the voluntary coöperation of nationally representative organizations of industry for the purpose of reaching mutually beneficial conclusions, in accordance with a plan proposed by the department of manufacture of the Chamber of Commerce of the United States and approved by the commissioner of internal revenue. Any organization, nationally representative of an industry or branch of an industry, which wishes to initiate a depreciation study in coöperation with the bureau of internal revenue, takes official action authorizing the study and appoints a committee to conduct the study. After a conference with representatives of the bureau of internal revenue as to the scope and methods of the study, this depreciation committee proceeds according to its own ideas and methods to arrive at conclusions which are presented to the commissioner of internal revenue in the form of recommendations. These recommendations are then distributed in the bureau of internal revenue to as many as possible of the individual members of the industry for comment and criticism. The results of this survey by the bureau of internal revenue are brought to the attention of the depreciation committee of the industry, and the recommendations of that committee are then accepted as made, or modified in view of objections voiced. The results of the study which are generally approved by the majority of the members of an industry are then published with authorization by the commissioner of internal revenue for their use in the preparation and audit of tax returns filed after date of publication. It is inevitable that some discrepancies will arise between rates of depreciation determined in this manner for the same depreciable assets in different industries, since the results of the studies will be published industry by industry rather than asset by asset. Different conditions of use will explain and justify a large number of these differences, but when no differences of use can be cited the bureau of internal revenue will expect the several industries involved to adopt common and mutually satisfactory rates. The appointed representatives of the industries involved will be invited to confer with each other and to effect necessary reconciliations or adjustments, when in the opinion of the commissioner of internal revenue these are required.

#### *Adaptation of Conclusions to Variable Conditions of Use*

The purpose of the bureau of internal revenue is to determine flexible standards of depreciation, not

to establish rates from which no deviation will be permitted. Any inflexible rule will work some injustice as there will be numerous exceptions to almost any rule of that nature. The plan is to determine average rates of depreciation which will be accepted by the commissioner of internal revenue without substantiation and without adjustment, and to require substantiation in proportion to the departure of the rates used from such average rates. No reasonable rate of depreciation will be prohibited, and within a certain range of the average rates little substantiation will be required. Results available from studies now in progress indicate that a variation of one fifth in either direction from the average rate will usually cover normal variation both in opinion and as to conditions of use. Thus, with a five-year average life variations of from four to six years would be permissible; for a ten-year average useful life the variation would range from eight to twelve years, and with a fifty-year average useful life there would be a permissible variation from forty to sixty years, all on the basis of a one-fifth variation in either direction from the average rates. Within such a range the only substantiation required for the consistent use of any rate of depreciation selected, will be a statement of general conditions which, in the opinion of the taxpayer, result in a deterioration of his assets at a rate greater or smaller than the average rate of deterioration in his industry. When rates of depreciation more or less than the normal range are used, it will be necessary to furnish a specific and convincing statement of the abnormal conditions which make such rates reasonable. It will be desirable to have as many as possible of these abnormal conditions stated in published conclusions, together with adjustments which an industry considers reasonable in view of such abnormalities, but this is not essential, as the individual taxpayer will always have the opportunity to depart from the average rates when unusual conditions apply to his specific case.

#### *Minimum Requirements in a Study of Depreciation*

The bureau of internal revenue considers two things to be essential:

(1) A statement of the useful lives of the depreciable assets of an industry by items or by classes of similar items, preferably departmentalized according to the different processes employed, services rendered, or products made by the industry. Such a schedule affords the only possible basis of comparison between the diverse methods for depreciation accounting, and gives the fundamental information required for the determination of essentially similar depreciation rates irrespective of the method employed.

(2) A statement of the principles and methods of depreciation accounting best suited to the business conditions of the industry to which the results of the study will apply.

#### *Methods Commonly Used for Computing Depreciation*

The bureau of internal revenue customarily approves three principal methods for depreciation accounting:

(1) The straight-line method which provides equal depreciation per unit of time for the useful

life of the asset under normal conditions of use, regardless of the work done.

(2) The unit-of-production method which provides equal depreciation per unit of work done during the useful life of the asset under normal conditions of use, irrespective of the elapse of time.

(3) The job method which provides for charging the difference between cost and salvage value of single-purpose or special-purpose equipment against the job for which it must be purchased.

Any other recognized trade practice may be used for determining depreciation deductions, provided such methods result in annual charges to depreciation over the useful life of the depreciable property according to some reasonably consistent plan. Modification of the methods above listed are permissible by reason of variations in expenditures for maintenance, variations of time in use, and any other conditions which cause the rate of deterioration of assets to change from time to time. (Articles 161 and 165, *Regulations* 69.)

#### *Additional Methods for Computing Depreciation*

Various other methods have been advocated for depreciation accounting and some of these methods have been used to a considerable extent, such as the various declining-balance or diminishing-balance methods which provide the greatest amount of depreciation in the first year of use with continually decreasing amounts of depreciation in later years, and the sinking-fund method which depends upon interest earned by amounts set aside for depreciation to provide for amortization of investment at termination of the useful lives of assets subject to depreciation.

The use of any recognized trade practice for computing a depreciation allowance is approved, (*Regulations* 69, article 165) but the methods mentioned in this paragraph are seldom selected for business accounting. Inasmuch as they would apply to a very limited number of the members of any industry, the bureau of internal revenue would prefer to consider them for individual cases where their use seems necessary, rather than to include them in depreciation studies and agreements in applying to whole industries.

#### *General Requirements of Bureau Regulations for Depreciation Accounting*

The capital sum to be replaced by depreciation allowances is the cost (or other bases recognized by the revenue acts) of the property with respect to which the allowance is made. Changes in market value other than those resulting from exhaustion, wear and tear, or obsolescence, are not accepted as a basis for determining deductions for depreciation. That is, an investment in depreciable property is regarded by the bureau of internal revenue as a prepaid operating cost returnable through deductions for depreciation over the useful life of such property. The deduction of an allowance for depreciation is limited to property used in the taxpayer's trade or business. A depreciation allowance in order to constitute an allowable deduction from gross income, must be charged off, either by deduction directly from the book value of the assets or by credit to a depreciation-reserve account reflected in the annual balance-sheet. The allowances should be computed and charged off with

express reference to specific items, units, or groups of property, each item or unit being considered separately, or specifically included in a group with others to which the same factors apply. The taxpayer should keep such records as to each item or unit of depreciable property as will permit the ready verification of the factors used in computing the allowance for each year for each item, unit, or group. (Articles 162, 164 and 169, *Regulations* 69.) The deduction for obsolescence will be confined to such portion of the property on which obsolescence is definitely shown to be sustained and can not be held applicable to an entire property unless all portions thereof are affected by the conditions to which obsolescence is found to be due. (Article 166, *Regulations* 69.)

### *Obsolescence*

Obsolescence is allowed by law as a deduction from taxable income, as a part of or in addition to depreciation. Short-life, depreciable assets generally terminate their periods of usefulness through wear and tear, or corrosion and decay. Long-life assets have their terms of usefulness brought to a close principally through obsolescence in one form or another. Two principal types of obsolescence are generally recognized: the first a sudden loss of useful value brought about by some revolutionary change, and the second, a gradual reduction of usefulness due to the cumulative effect of small improvements or changes, no one of which is in itself sufficient to result in complete obsolescence. The first type of obsolescence can rarely be predicted, as to time of occurrence, and must be accepted as a loss in addition to depreciation, when it is operative. The second type is as certain as physical deterioration and its effects may be predicted with the same degree of certainty. In the depreciation studies of the bureau of internal revenue, no distinction is made between gradual obsolescence and deterioration through wear and tear, decay, or other exhaustion. The depreciation schedules are based upon the estimated useful life in years which the experience and opinion of an industry indicate for each depreciable asset, regardless of whether the useful life is terminated by obsolescence or by other deterioration.

### *Item Rates and Composite Rates*

The bureau of internal revenue considers depreciation by items, or by groups of items having practically identical physical characteristics and useful lives, to be the soundest basis of accounting. With this method losses are written off when particular items have actual useful lives less than the estimated useful lives upon which deductions for depreciation have been computed. When the cost of an item has been reduced to an estimated salvage value through deductions for depreciation, no further charge for depreciation of that item is possible with item accounting.

Many taxpayers apply an average or composite rate of depreciation to their entire investment in depreciable property, which may comprise many dissimilar items with diverse expectancy as to useful lives. The bureau of internal revenue has no objection to the use of composite rates of depreciation when such rates are determined as accurately

as possible from the anticipated useful lives and from the actual or closely approximated costs of the items comprising the aggregate property, but sound accounting practice requires that when depreciation is allowed upon the basis of a composite rate no losses are allowable upon disposal of property. It is impossible to compute item losses by use of a composite rate, since, except by change, the composite rate does not apply to any item of the total property; and with the use of a composite rate depreciation deductions for some items, whose useful lives have been underestimated, are continued after their entire cost would have been returned at item rates of depreciation. Thus it is fair to assume that overestimates and underestimates of useful lives will balance when a composite rate of depreciation is employed, and that, since no profit is recognized by reason of excess deductions for depreciation when the useful lives of some items are underestimated, no loss should be recognized when the useful lives of other items have been overestimated. The preceding discussion of overestimates and underestimates of useful lives has no application to losses affecting the property as a whole, and unforeseen contingencies such as a fire, storm, sudden obsolescence, and other casualty, which losses should be considered upon a proper basis with both the item and the composite rates of depreciation.

The principal reason advanced for the use of a composite rate of depreciation is its simplicity. A secondary reason is that some properties are purchased as going businesses and the costs of component parts of the properties are unknown. Under such conditions it may be necessary to use an approximate composite rate of depreciation, temporarily at least. Even with a composite rate of depreciation determined by guess, it eventually becomes necessary to estimate the cost of each asset when it is eliminated from the property account and from the depreciation reserves, and it probably will be more difficult and more expensive to make this estimate in the future than at the time when a property is acquired. Unless separate statistical records are maintained and estimates of the useful lives of items are revised in the light of experience, the accuracy of a composite rate is not subject to the check of actual experience, whereas an item rate is checked every time an item of property goes out of use. The composite rate of depreciation, properly determined and used, therefore, requires all of the basic information essential to the use of item rates of depreciation, and, in addition, the maintenance of special statistical records if the composite rate is to be modified in the light of increasing or changing experience.

### *Unnecessary Refinement of Detail*

Depreciation accounting involves a conflict between methods correct in theory and those which it is possible to apply in practice. A practical method can not be so detailed as to minor items of the investment that the expense for maintenance of records will exceed any possible benefit to be derived from the additional facts which the detail will disclose. The bureau of internal revenue will not insist that the total investment in depreciable property be itemized, but will be satisfied if the list of items or classes of items includes those comprising

appreciable percentages of the total investment. If item rates apply to eighty-five or ninety per cent. of the total investment, average or composite rates used for the remaining investment would have to be exceptionally in error to have noticeable effect upon the aggregate amount of depreciation for all assets.

*Useful Life in Years the Basis of Any Depreciation Accounting Method*

It will be noted that repeated reference has been made to depreciation stated in terms of useful life in years. Schedules listing items or classes used by departments of an industry, and with the estimated average useful life of each item or class of assets stated, will furnish a basis with which all methods of depreciation accounting may be compared, and such a schedule is the only one which will serve that purpose.

A new asset with ten years' useful life will have a ten per cent. rate of depreciation, but if that asset is sold after five years' use, the buyer has an expectancy of but five more years of usefulness from the asset and requires a twenty per cent. rate of depreciation. If one business and accounting policy charges all costs of maintenance to current expense as repairs, another business and accounting policy which capitalizes some of the maintenance charges, as replacements, must have a higher percentage rate of depreciation in order to retire its capital during the same useful life for a similar asset. Thus, percentage rates of depreciation unaccompanied by a detailed statement of accounting policy are meaningless, while no variation of accounting policy can alter the useful life in years.

The schedule of depreciation rates in terms of useful life in years can be used directly for determining straight-line depreciation on an item basis. Straight-line depreciation on a composite basis—that is, upon the basis of an average rate for all assets rather than upon an individual rate for each asset—may also be determined if the cost of each asset is known. When the cost of items is not known it will be necessary to estimate such costs and to approximate a composite rate of depreciation comparable to the item rates. To make such approximation the items of property are listed which comprise the total property for which a composite rate is to be determined, and a value is carefully estimated for each item. Appraisals made for other purposes, such as insurance, may be used for this purpose. The approximate value of each item divided by the number of years of its remaining useful life as determined from the schedule of approved useful lives in years for new equipment with proper adjustment for the portion of that period which has already expired will give an approximate yearly amount of depreciation for each item. The sum of the approximate amounts of depreciation for all items divided by the sum of the approximate values of the same items will give a composite rate of depreciation which will correspond essentially to the item rates of depreciation, irrespective of whether or not the total approximate value used in the determination of this composite rate of depreciation conforms very closely to the book value of the assets subject to depreciation. The amount of depreciation is determined by multiplying the book

value subject to depreciation by the composite rate of depreciation, as approximately determined.

The adaptation of the item schedules of "useful life in years" to the allowance of depreciation upon a unit-of-work basis is simple. The average number of units of work per annum which may be expected from the asset during its useful life in years must be estimated, and the product of the number of estimated years of useful life and the number of the estimated units of work per annum gives the total estimated units of work for each item. The cost of an item divided by the total number of estimated units of work which it will perform during its useful life gives the rate of depreciation per unit of work. Machine-hours of use, units of production, units of raw materials handled, are all measures of units of work. In the natural resource industries, the unit-of-production basis for depreciation has become the accepted income-tax method of determining the depreciation of physical assets of longer life than the natural resources which they serve, and the machine-hour of work is rapidly becoming popular in cost accounting as a basis for depreciation in manufacturing industries, particularly those which have varied products and seasonal overtime work. In the depreciation studies of the bureau of internal revenue both the straight-line (unit of time) and the unit-of-work methods for depreciation are being developed in parallel, whenever this is possible.

*Salvage Value*

Salvage value is theoretically deducted from the first cost of a depreciable asset to find the amount subject to depreciation. Salvage value should be clearly defined as the net amount realizable from the sale of an asset in excess of the cost of dismantling or removing the asset. Such net salvage value is seldom a thing of importance, rarely exceeding five per cent. of the first cost of an asset. Assume that an asset has twenty years of expected useful life. An error of one quarter of one per cent. in the rate of depreciation would exceed the maximum possible salvage value, or, stated otherwise, one year's variation in the useful life is as important as the salvage value in a determination of the yearly amount of depreciation. Useful lives of assets can not be estimated with any such degree of certainty, and the general opinion expressed by industry is that net salvage value is closer to zero than to five per cent. It has been recommended to the bureau of internal revenue that it might permit taxpayers to ignore salvage value and to depreciate entire first costs of most assets, with resulting simplification of depreciation accounting.

*Losses in Addition to Depreciation*

Uncompensated losses by reason of fire, storm, and other casualty, are clearly distinct from and not covered by deductions for depreciation, and are allowable in addition to depreciation to the extent of the actual loss. (Article 141, *Regulations* 69.)

Breakage is sometimes caused by cumulative wear or corrosion but generally may be attributed to inherent defects, overloading, carelessness, or other unforeseen contingency. Accounting opinion seems to be fairly agreed that losses by reason of ac-



cidental breakage should be treated in the same manner as other losses and charged off in the year in which they occur, irrespective of the depreciation-accounting method employed.

Losses by reason of sudden obsolescence are treated by the bureau of internal revenue in the same manner as other losses, except that when sudden obsolescence can be definitely anticipated the deduction on this account may be charged off during a short period before an asset is scrapped by reason of the obsolescence. (Article 143, *Regulations* 69.)

#### *Alterations*

Alterations should be considered in connection with depreciation accounting for industries in which alterations are a matter of importance. Rental buildings require frequent alteration to suit the needs and tastes of specific tenants. These alterations may add nothing to the value of the building nor to its useful life. The alterations made for a specific tenant may be charged against the rental of that tenant, that is, the cost of alterations may be depreciated during the term of that tenant's lease. Recommendations have been made to the bureau of internal revenue by some industries that when alterations for tenants are made in approximately equal annual amounts, such alterations should be charged to repairs and maintenance. Alterations are frequently made by the owners of buildings and of manufacturing plants to care for expanding business. Theoretically, the undepreciated cost of the portion of the asset which is eliminated and the cost of its removal are losses, or costs chargeable to current expense. The cost of installing the alteration or replacement is then added to capital returnable through depreciation. When special problems are a matter of frequent occurrence in any industry, these problems should be clearly stated together with recommendations as to the method best adapted to dealing with the problem for the industry involved.

#### *Effect of Variations in Rate of Production upon Rates of Deterioration*

In some industries the deterioration of portions of the plant facilities, or even of entire plants, will be as great or greater when the plants are idle as when they are in operation, especially when there is little or no expenditure for maintenance during periods of idleness. This is especially true when corrosion and decay are the principal elements of deterioration. If, on the other hand, wear and breakage are the main causes of deterioration, and the depreciable properties are protected from corrosion and decay through adequate maintenance, there will be little or no deterioration during periods when the plants are idle, but normal obsolescence will proceed whether or not the plants are in operation.

Most industries will be able to ascertain a certain percentage of rated plant capacity which is a normal rate of production. A statement of adjustments to normal rates of depreciation, which will be reasonable as the rate of production departs from the normal, will be desirable in connection with the straight-line basis of depreciation if any deviation from the theoretical method is advisable. When the unit-of-production depreciation method is employed, it is

desirable to state the basis which would be substituted for depreciating idle assets, for which no depreciation is provided by the theoretical method.

#### *Maintenance in Relation to Depreciation*

Maintenance is here defined as including both repairs and replacements. Repairs arrest or lessen deterioration on account of wear and decay. The regulations recognize that this is true, and state that in estimating the allowance for depreciation: "Due regard must . . . be given to expenditures for current upkeep," but that "property kept in repair may, nevertheless, be the subject of a depreciation allowance." (Articles 161 and 163, *Regulations* 69.) "The cost of incidental repairs which neither materially add to the value of the property nor appreciably prolong its life, but keep it in an ordinarily efficient operating condition, may be deducted as expense, provided the plant or property account is not increased by the amount of such expenditures. Repairs in the nature of replacements, to the extent that they arrest deterioration and appreciably prolong the life of the property, should be charged against the depreciation reserve if such account is kept." (Article 104, *Regulations* 69.) Approved procedure with item accounting for replacements consists in taking the cost of the replaced part out of property account, taking the depreciation set up on the replaced part out of the depreciation reserve, writing off the undepreciated cost of the replaced part less realized salvage as a loss, and adding the cost of the new part to property account. It is only the cumulative effect of wear and decay that necessitates repairs and replacements. Repairs and replacements are periodic, while wear and decay are constant. It is generally true that current deterioration is less when repairs and partial replacements are made than when they are not made, and that in some cases the extent of deterioration may be entirely arrested by repairs. Yet, at times, it is possible that a physical property may be rejuvenated by repairs which counterbalance wear and breakage; that it may be maintained at 100 per cent. of its initial productive efficiency; that it may be entirely protected from corrosion and decay by means of repairs; and that it may still depreciate steadily in useful value on account of gradual improvements in more modern types of similar depreciable assets, or on account of growing inadequacy to the needs of a particular business, or on account of changes in style or custom.

It is also possible that a very small deterioration in usefulness is sufficient to cause the replacement of a depreciable asset, either because it becomes unsafe, or because it causes a loss of time which is disproportionate to the cost of a replacement, or because the use of a newer type of the same asset will yield a sufficiently greater profit to pay the additional depreciation and interest charges which its installation would necessitate.

With depreciable assets of long life which have been in use for a number of years, the repair and maintenance charges for the aggregate depreciable assets employed in the business may be approximately constant, but it is probable that more repairs are undertaken in periods of business depression than in periods of unusual business ac-

tivity. If depreciation is charged in equal annual amounts the combined charge for depreciation and repairs will be insufficient in times of business activity both because wear is greater and because repairs are less extensive. The obverse is frequently true for periods of inactivity in business.

The cost of maintenance will almost invariably be at the minimum when a depreciable asset is new and will increase progressively as the asset ages. If there is fairly constant proportion of new to old items in the total property subject to depreciation, the repair and maintenance costs will also be rather uniform in annual amount, but for properties composed entirely of new or of old items, the variance of maintenance costs with age of assets is a matter for serious consideration.

The bureau of internal revenue desires but does not require that normal maintenance costs be determined in connection with the determination of the normal useful lives of depreciable assets. It will be preferable to have normal costs of maintenance determined by items or classes of items, but, in the event that the accounting records of an industry do not permit such detail, the statement of maintenance costs by departments of the industry will be very helpful.

Current costs for the same amount of repair and maintenance will vary with current economic conditions as reflected in wage and price levels. If normal maintenance costs are determined as definite amounts or as percentages of the first costs of the depreciable assets to which they apply, the price and wage levels should be indicated for which the stated amounts of maintenance are normal. A more desirable method would be to state normal costs of maintenance in terms reflecting current variations in economic conditions.

It is believed that the costs of maintenance in most industries will be found to be a fairly uniform percentage of total operating costs, or to vary proportionately with some item of the total cost such as the labor or the supply cost, dependent chiefly upon whether labor or supplies constitute the principal cost of maintenance, or whether both exercise approximately the same degree of control over costs of maintenance. If the relation of maintenance to total operating costs or to items of operating costs can be determined for an industry, it would be possible to determine with reasonable accuracy whether maintenance charges for an individual taxpayer of the industry have been normal or abnormal in any year regardless of the amount of such charges.

In the event that normal maintenance standards can not be established by an industry, individual taxpayers of that industry may avail themselves of the opportunity to establish individual standards for maintenance which may be used for the adjustment of amounts of depreciation during periods when maintenance charges are abnormal.

### *Combined Depreciation and Maintenance Accounts*

Division of maintenance expense into current expense and capital accounts is a troublesome problem of accounting. The determination of a rate of depreciation sufficient to provide, not only for the amortization of the cost of a depreciable asset at the end of its useful life, but also for the main-

tenance of that asset during its useful life, might be desirable. All costs of repairs and replacements would be paid from the depreciation reserve should such a rate be used. A combined charge for depreciation and maintenance would be but a portion of the rental for a depreciable asset, such as the machine-hour rental charge to each job for the use of each asset, which is gaining favor with cost accountants in many industries. Repairs of almost any nature add to the value of an asset, and the payment of repair charges from a depreciation reserve is not necessarily a combination of current expense and capital accounts. Theoretically, the charge per unit of use for a depreciable asset should be a proportionate amount of the total cost for the use of that asset during its entire useful life; and the elements of repairs, replacements, and depreciation, including obsolescence, are all portions of that total cost. A combined charge for depreciation and maintenance per year, per unit of product, per hour of use, or for any other recognized unit of measure, would necessarily be adjusted from time to time with changing economic conditions. The commissioner of internal revenue does not require but has authorized the study of combined charges for depreciation and maintenance when, in the opinion of any industry, such a study is desirable, with the object of ascertaining whether or not such charges can be determined with sufficient accuracy for use in connection with income-tax returns.

### *Summary*

By authorization of the commissioner of internal revenue, studies of depreciation are being undertaken by the bureau of internal revenue in cooperation with nationally representative organizations of industry. The scope of any study will be determined by the industry making the study, but minimum requirements are a statement of useful life in years by items or classes of items used in the industry, together with a statement of accounting policy in connection with depreciation matters. Optionally, with any industry, the scope of a study may be enlarged to include related subjects such as maintenance costs, or combined rates for depreciation and maintenance. Each industry cooperating with the bureau of internal revenue is establishing self-regulatory standards for depreciation. These studies were authorized for the purpose of securing equity and simplicity in the audit of income-tax returns, after nearly ten years of satisfactory experience with similar agreements between certain industries and the bureau of internal revenue.

The commissioner of internal revenue believes that, in formulating any policy to be adopted with respect to depreciation, provision should be made for increases or decreases in rates during periods when it can be shown by affirmative evidence that changes in normal rates are warranted.

It is hoped that these studies may lead to conclusions as to practicable methods whereby average depreciation rates may be determined together with normal maximum and minimum rates, with due regard to changing economic conditions, variable expenditures for maintenance, and supernormal and subnormal rates of production and their effect in changing such average rates from year to year.

## **Practical Aids to the Independent Merchant**

The bureau of foreign and domestic commerce, United States department of commerce, has published a 30-page pamphlet discussing the problems of independent retail merchants. Among the contents of the booklet are sections on changes in distribution methods, cost and inventory studies for retailers, measurement of the retail market, budgetary control in retail-store management, coöperative retail advertising, trade associations, simplified practice, technical research and many other matters.

## **Proposed Study of Chain-store Accounting**

The metropolitan group of the Controllers' Congress, National Retail Dry Goods Association, is to undertake a study of accounting methods of chain-store organizations. The study is to be restricted to the accounting and control methods employed. Four committees have been appointed, each of which will consider one of the four main subjects composing the plan of procedure. A brief tentative outline of the programme for the study has been drawn up as follows:

### *Accounting and Control Methods*

1. Methods of handling.
  - A. Group buying and payment.
    - a. Centrally.
    - b. Decentrally.
    - c. Shipping instructions and traffic departments.
    - d. Foreign buying.
  - B. Discounts and delivery terms. Comparisons between stores.
  - C. Contract buying.
2. Statistical control.
  - A. Retail system (to what extent used—modifications from standard, if any).

L. A. Oates, Miami, Florida, addressed the Old Colony club of Nassau, August 1st, on "Relations between Florida and the Bahamas."

Joseph L. Pyle, Wilmington, Delaware, spoke on cost accounting at a meeting of the Tile and Mantel Contractors Association at Atlantic City, September 28th.

- B. Merchandise budgeting in all phases. Centrally controlled, etc.
  - C. Price and unit controls. Merchandise transferring.
3. Fiscal books.
  - A. Financial budgeting.
  - B. Consolidated statements.
  - C. Separate store showings.
4. Expense control.

### *Unit Stock Control*

1. Its place in the organization.
  - A. Under controller.
  - B. Under merchandise office.
  - C. In combination.
2. Price lining and mechanics.
3. Reports, use, etc. Utilization.

## **Public Accountants in Hotel Accountants Association**

According to the list of members of the Hotel Accountants Association, New York, issued September 15th, 1928, there are at present nineteen public accountants in the organization. The total membership is seventy-three.

## **Accounting at Columbia University**

In the September *Bulletin* an announcement was made concerning three courses in accounting offered by Columbia University Extension. A correspondent suggests that this announcement might create the impression that they were the only accounting courses at Columbia. If there is any possibility that such a misunderstanding has arisen it may be well to point out that accounting has been taught at Columbia for more than fifteen years and that the curriculum in the subject embraces a large number and wide variety of courses. Those who are interested are advised to write the university for a pamphlet entitled *Accounting in University Extension*.

George A. Treadwell, New Orleans, has been appointed a member of the National Panel of Arbitrators of the American Arbitration Association.

The *Magazine of Wall Street* for September 11th contained an article by R. D. Willard, Boston, entitled "Guaranteeing thrift results by using a workable budget."

STATE BOARDS OF ACCOUNTANCY

(INDIVIDUAL) Form C

Arkansas

The personnel of the new state board of accountancy of Arkansas is as follows: J. V. Stewart, president, R. C. Frambers, treasurer, and W. W. Findley, secretary.

New Rules of Colorado Board of Accountancy

On April 4, 1928, the state board of accountancy of Colorado adopted new rules for examinations for the certified public accountant certificate. In general the new rules provide the routine methods for conducting examinations and resemble those promulgated by other state boards.

The Colorado examination is to consist of questions on accounting, auditing and commercial law, according to the new regulations. It may be oral or written or both. Seventy-five per cent. is to be the passing grade in each subject. Re-examination of unsuccessful candidates is permitted once without additional fee within eighteen months after the original examination. A candidate passing two subjects may be re-examined in the one subject in which he failed. A high-school education or its equivalent and three continuous years of public accounting experience, next preceding date of examination, the last year of which shall have been in Colorado, are prerequisites for the examination.

Temporary Certificates in Florida

The Florida accountancy law contains a provision that no person, partnership or firm may temporarily practise as a public accountant in the state without a licence to do so. Such licences may be granted at the discretion of the state board of accountancy to persons holding C. P. A. certificates of other states or certificates as chartered accountants issued under the laws of foreign governments. The licences are valid for ninety days from the date of issuance and are granted only for specific engagements.

The forms of application for temporary licences are printed here for the information of Institute members.

STATE OF FLORIDA  
STATE BOARD OF ACCOUNTANCY

APPLICATION FOR TEMPORARY CERTIFICATE OF AUTHORITY under Sections 10 and 16 of an Act to Amend Section 2507, 2508, 2510, 2512, 2513 and 5670 of the Revised General Statutes of Florida.

Date.....19..

I hereby make application for a Temporary Certificate of Authority to practise as a Public Accountant in the State of Florida in accordance with the provisions of the above named Act.

I enclose.....for \$10.00.

I submit for your consideration the following:

1.—My full name is.....  
2.—My address is.....  
3.—I am the holder of Certificate of Certified Public Accountant issued by the State of.....

4.—I am the holder of Certificate of Chartered Accountant issued by.....

5.—The number of above mentioned Certificate is.....

6.—The date of above mentioned Certificate is.....

7.—Has the above mentioned Certificate ever been revoked or suspended by the Board issuing same?.....

8.—Is the above mentioned Certificate in good standing at date of this application?.....

9.—The only engagement or engagements upon which I will practise as a Public Accountant under the Temporary Certificate of Authority herewith applied for (is) (are):.....

10.—Was (or were) the foregoing mentioned engagement (s) secured by you outside the State of Florida?.....

11.—Do you understand that the Certificate of Authority applied for herewith, if issued, is a temporary licence conferring upon you the legal right to practise as a Public Accountant in the State of Florida for a period of ninety days from the date of its issue, and that the only engagement (s) which you may handle as such under said Certificate of Authority (is) (are) the one (s) specified by you in paragraph nine (9) hereof?.....

12.—Do you understand that it is unlawful for you to assume the designation of Certified Public Accountant, or use the abbreviation "C. P. A." in the State of Florida unless you show immediately after such designation or abbreviation the name of the State by which such certificate was issued?.....

13.—If this application be granted, I will keep and abide by the standards of professional conduct and/or rules defining ethical practice of public accountancy now promulgated by the State Board of Accountancy of the State of Florida and/or as the same may be in the future amended.

STATE OF  
COUNTY OF

ss.

Subscribed and sworn to before me this.....day  
of.....A. D. 19..

## Bulletin of American Institute of Accountants

(PARTNERSHIP OR FIRM)—Form C-1

### STATE OF FLORIDA STATE BOARD OF ACCOUNTANCY

APPLICATION FOR TEMPORARY CERTIFICATE OF AUTHORITY under Sections 10 and 16 of an Act to Amend Sections 2507, 2508, 2510, 2512, 2513 and 5670 of the Revised General Statutes of Florida.

Date.....19..

The undersigned Partnership or Firm hereby makes application for a Temporary Certificate of Authority to practise as Public Accountants in the State of Florida in accordance with the provisions of the above named Act.

We enclose.....for \$10.00.

We submit for your consideration the following:

- 1.—Name of Partnership or Firm is.....
- 2.—Address of Partnership or Firm is.....
- 3.—Are all the members of the undersigned Partnership or Firm holders in good standing of Certificates of "Certified Public Accountants" issued by a State of the United States, or "Chartered Accountant" issued by a foreign country?.....
- 4.—The names, addresses, designation and name of State or Country issuing certificate, number of certificate and date of certificate of all the members of the undersigned Partnership or Firm are:.....

(NOTE:—If sufficient space is not provided below for the names, etc., of all partners, then same should be listed on a separate sheet of paper and pasted to this sheet below.)

Name.....  
Address.....  
Designation ("C. P. A." or "C. A.").. Issued by....  
Number of Certificate..... Date of Certificate..  
Name.....  
Address.....

Designation ("C. P. A." or "C. A.").. Issued by....  
Number of Certificate..... Date of Certificate....

5.—Is the undersigned a Corporation.....

6.—The only engagement (s) upon which we will practise in the State of Florida as Public Accountants under the Temporary Certificate of Authority herewith applied for (is) (are):.....

7.—Was (or were) the foregoing mentioned engagement (s) secured by you outside the State of Florida?.....

8.—Do you understand that the Certificate of Authority applied for herewith, if issued, is a temporary licence conferring upon you the legal right to practise as Public Accountants in the State of Florida for a period of ninety days from date of issue, and that the only engagement (s) which you may handle as such under said Certificate of Authority (is) (are) the one (s) specified by you in paragraph six (6) hereof?.....

9.—Do you understand that it is unlawful for you to assume the designation of Certified Public Accountant, or use the abbreviation "C. P. A." in the State of Florida unless you show immediately after such designation or abbreviation the name of the State by which such certificate was issued?.....

10.—If this application be granted I will keep and abide by the standards of professional conduct and/or rules defining ethical practice of public accounting now promulgated by the State Board of Accountancy of the State of Florida and/or as the same may be in the future amended.

By.....  
Title

STATE OF  
COUNTY OF

ss.

Subscribed and sworn to before me this....day  
of.....A. D. 19..

## NEWS OF LOCAL SOCIETIES

### Annual Meeting Alabama Society

The ninth annual meeting and banquet of the Alabama Society of Certified Public Accountants were held at Birmingham on September 3rd. The following officers were elected: president, Vivian R. Pritchard; secretary-treasurer, John F. Andrews; chairman of council, Robert E. Troy; council members, Mayer W. Aldridge, Edmund A. Chapman, Francis B. Latady and Walter K. Smith.

A resolution favoring wider use of the natural business year was adopted unanimously and a committee is to be appointed soon to study the subject and to report at the next annual meeting.

It was reported that three chapters of the society had been established during the

past year, in accordance with a resolution adopted at the 1927 annual meeting. These chapters are in Birmingham, Montgomery and Mobile.

Montgomery was selected as the place for the 1929 meeting.

### Illinois Society Substitutes By-law for Code of Ethics

At the annual meeting of the Illinois Society of Certified Public Accountants the rules of professional conduct were repealed and the following addition was made to the by-laws:

"Each member of this society shall observe the ethical proprieties of the profession, remembering that the public's reliance upon his reports can be maintained only by the utmost diligence in the determination and clear presentation of essential

information; that the clients' confidences are to be held inviolate; that any business affiliation, commitment, or understanding should be avoided if it is inconsistent with the dignity of his profession or may impair the impartiality of his attitude or the confidence which the public places in him; and that unseemly solicitation or advertising or any lack of consideration for the rights of others is discrediting to the accountant, to his society, and to the profession."

It is understood that the society intends to publish a pamphlet discussing in detail the subject of professional ethics. This pamphlet will be distributed to members and to others interested in the subject.

### **Meeting of Massachusetts Society**

The first meeting of the Massachusetts Society of Certified Public Accountants for the year 1928-1929 was held at the Parker House, Boston, on September 24th. Robert H. Montgomery delivered an address on the future of the accounting profession. About 175 persons were present at the meeting.

### **Pennsylvania Institute of Certified Public Accountants**

#### **PHILADELPHIA CHAPTER**

A tentative programme for monthly meetings of the Philadelphia chapter of the Pennsylvania Institute of Certified Public Accountants has been prepared. It is planned to hold one meeting each month from October to May, inclusive. The subjects and speakers, as far as they are known at present, are as follows:

Wednesday, October 17, 1928:

Address by Will-A. Clader on "Investigations for prospective purchasers."

Friday, November 16, 1928:

Joint meeting with Philadelphia chapter of the National Association of Cost Accountants. Debate on the question, "Resolved: That interest on investments be included as a cost of manufacturing."

Wednesday, December 19, 1928:

Christmas meeting. Distribution of gifts to members. Musical and humorous entertainment.

Tuesday, February 19, 1929:

Address on "The revenue act of 1928." Speaker to be announced later.

Thursday, March 21, 1929:

Address on "Public utilities." Speaker to be announced later.

Wednesday, April 17, 1929:

Address on "Decedents' estates." Speaker to be announced later.

Monday, May 20, 1929:

Address on "Investment trusts." Speaker to be announced later.

### **Porto Rico Institute of Accountants**

Since the passage of the C. P. A. law in Porto Rico in May, 1927, the profession of accountancy has rapidly assumed a position of much greater prominence in the territory than it formerly occupied. In the late spring of 1928, the Porto Rico Institute of Accountants, which was organized and incorporated in 1922 but has displayed unusual activity in the last year and a half, adopted rules of professional conduct modeled on those of the American Institute of Accountants, and members have already been disciplined under the new code.

The objects and general structure of the Porto Rico Institute are similar to those of the American Institute. Examinations for admission are conducted at least once each year. Most of the accountants who were qualified to obtain C. P. A. certificates by waiver under the new law are members of the Porto Rico Institute.

The present officers are as follows: president, Eugenio D. Delgado; vice-president, Augusto R. Soltero; treasurer, José Peña Reyes, and secretary, R. Betancourt del Valle. The following are directors: Salvador Antonetti, Santos G. Ramírez and Isaías Rodríguez.

### **Annual Meeting, South Carolina Association**

The South Carolina Association of Certified Public Accountants will hold its annual meeting at Columbia on October 23rd. J. H. Shields of Duke University has been invited to speak at the banquet on the subject of "Recent trends in controllerships."

The association has extended an invitation to all accountants, whether members

or not, to attend the dinner in the evening, at which it is planned to conduct discussions on several interesting topics.

### **Accountants Approve Uniform County Audits**

A proposal for a uniform system of accounting and auditing in all counties in Tennessee has been approved by the Tennessee Society of Certified Public Accountants. After discussion of the question at a meeting of the society, it was the unanimous opinion of the members present that the adoption of such a system would be of great benefit to the community and to the accountancy profession in the state. The

society offered its coöperation in any effort which may be made to further the adoption of a uniform accounting system.

### **Proposed Revision of Texas Society's Constitution and By-laws**

In the *Texas Accountant* for September, 1928, is printed a draft of a proposed new constitution and new by-laws for the Texas Society of Certified Public Accountants, which have been submitted to a special committee headed by J. R. Nelson. This committee will receive the opinions of members concerning the published draft and will make its recommendations at the annual meeting of the society at San Antonio, November 30th and December 1st.

## **REVIEWS**

### **ANSON HERRICK—"SHALL DEPRECIATION BE COMPUTED UPON REPRODUCTIVE COST?"**

Address before the San Francisco chapter of the National Association of Cost Accountants, July 23, 1928.

Computation of depreciation on reproductive cost is a subject of increasing interest in this period of property appraisals, said the speaker. The present vogue of corporate merger or consolidation frequently requires a re-statement of plant and equipment cost on the basis of reproductive cost instead of historical cost. In the opinion of the speaker, the question, "Shall depreciation be computed on reproductive cost?" does not permit a categorical answer except after a clear understanding of the circumstances in any individual case. Mr. Herrick gave what he called a homemade definition of depreciation as the gradual dissipation of the value of anything consequent to its use, or to the ravages of time and the elements, beyond that which may be economically eliminated by current repairs. Depreciation, he said, may be measured and anticipated with comparative accuracy. For the purpose of his discussion he included in the definition the element of obsolescence in so far as it is progressive according to normal improvement of methods.

Reproductive cost, he said, is that somewhat theoretical amount of capital which, if existing plant facilities were to be destroyed suddenly, would necessarily be expended in their reproduction. His definition included the modifying word "theoretical," because reproduction cost wholly presupposes a theoretical situation. A plant would rarely be rebuilt exactly as it exists and during the reconstruction there would almost inevitably be a variation in the prices of labor and materials. In one case to which the speaker referred, a reproductive cost based on an appraisal was wholly impractical because it ignored the fact that if the plant should be destroyed it could be rebuilt so as to give an equal production capacity with the expenditure

of much less capital than the appraisal figure, because the original plant had been poorly arranged. These defects of arrangement constantly necessitated excessive expenditures in operating costs and the estimated reproductive cost did not take into consideration that condition.

Reproductive cost frequently exceeds historical cost and is usually assumed to represent appreciation added to historical cost. One is not justified in making this assumption, however, said the speaker, because reproductive cost may often be less than historical cost. With this in mind, he re-stated the question thus: Shall the value of capital assets which becomes progressively consumed consequent to their use be measured by the capital which they cost or by that theoretical amount of capital which would be required to replace them should they be currently destroyed?

On the theory that accounts are concerned with accomplished facts, it was the opinion of the speaker that depreciation should be measured by historical cost, which is actually the amount of capital in process of consumption. However, he said that in many instances due to defective accounting the historical cost is inaccurately reflected. Again, in certain conditions reproductive cost may be used in a reorganization in such a way that it really becomes the true measure of the capital employed. For instance, in a concern which offers stock to the public on the basis of assets including property valued at a reproductive cost estimated after a sound appraisal, the purchasers of the stock have a tendency to fix the value of the existing capital by their capital contributions. In such a case the reproductive-cost basis is a more accurate measure of the capital employed than is the historical cost. In such instances, said the speaker, depreciation should be computed on the basis of reproductive cost.

Mr. Herrick mentioned another view of the question, which might be taken on the basis of cost-accounting theory. From this viewpoint depreciation cost and raw-material cost might be considered costs having little theoretical difference be-

yond the rapidity of consumption. Therefore, if the consumption of raw material is accounted for by its value on the day of consumption, regardless of its cost, the consumption of plant value might logically be recorded in the same way and if this were granted, depreciation would be calculated again on reproductive cost.

The fact that there were several logical answers to the original question with which his address was concerned seemed to the speaker to indicate that accounting is not to be considered an exact science and that the circumstances of individual cases must be considered in applying any such theory as a method of calculating depreciation.

W. J. FORSTER—"THE SLIDING SCALE IN DEPRECIATION"

Article published in the *National Hotel Review*, September 8, 1928.

The writer says that there is much more in the study of depreciation in the hotel industry than a mere tabulation of what hotels have formerly taken as deductions in tax returns and that it is necessary for the hotel industry to determine standard rates

of depreciation on a basis as nearly scientific as possible. Mr. Forster says that a theory of depreciation suggested by H. O. Telman in an earlier article in the *National Hotel Review* deserves consideration. This theory is in substance that if room furniture and equipment are given a useful life of twelve years, then a rate of 8.33 per cent. per annum should be calculated on the cost of the furniture and equipment only in rooms which are occupied and no depreciation should be taken on equipment in unoccupied rooms. The writer mentions that the income-tax unit permits to manufacturers a depreciation deduction based on the machine-hour basis, which is similar to the use and occupancy of hotel rooms.

It is recognized, says Mr. Forster, that all equipment has not the same term of life and he points out that the element of obsolescence also enters into the question of calculation of depreciation. Nevertheless, he says, it is inconsistent for two hotels, one of which is 60 per cent. occupied and the other 80 per cent. occupied, to be given the same rates of depreciation on all their furniture and equipment. There is naturally more wear and tear in the seasons when most of the hotel's rooms are in use than at times when a large part of the building is vacant.

## EMPLOYMENT EXCHANGE

The employment exchange which was inaugurated by the Institute a few months ago has met with an encouraging reception by accounting firms and by accountants in search of staff positions. Many applicants have already been put in touch with prospective employers, despite the fact that the work was commenced in the dull season of the year.

Naturally the value of the assistance rendered by the exchange will increase in direct proportion to the number of experienced applicants who are known to be available and the number of firms which make known their need for staff assistants.

As previously announced, the assistance of the exchange is offered only to applicants who have had public accounting experience. The bureau for placements, a separate activity, undertakes to provide college graduates for firms in need of junior assistants.

The following applicants are at present available for employment. Inquiries should refer to the key number of the applicant concerned.

No. 4A—Woman, unmarried, age 36, associate American Institute of Accountants and C. P. A. Experience includes three years with New York public accounting firm and three years as assistant treasurer of New England manufacturing company. Education—high school, busi-

ness college and university extension work. Salary commensurate with responsibilities.

No. 5A—Married man, age 44, with dependents. Senior accountant. Has practised public accounting on own account for five years and has served as auditor and comptroller, respectively, for two different corporations. No objection to travel. Prefers headquarters in New York. Salary \$60.

No. 6A—Specialist in probate accounts—estates, trusts, etc.—would like employment with public accounting firm specializing in these matters. Also has had experience in bank audits. Certified public accountant of Connecticut with twenty years' experience as secretary-treasurer of a private corporation. Has also practised public accounting at various times. Age 57. Prefers New York. Salary subject to arrangement.

No. 11A—Accountant, age 41, member American Institute, available for executive position with public accounting firm or private concern. Certified public accountant of Minnesota and chartered accountant of Scotland. Fifteen years' experience in public accounting, three years on own account, and 3 years as comptroller of private corporation. Salary subject to arrangement. At present residing in New Jersey.

No. 13A—Accountant, age 38, with 11 years' public practice with well-known firms and on own account and with 5 years' experience as comptroller of a manufacturing company, desires comptrollership of a private corporation or managership of a branch office of a public accounting firm. Member American Institute of Accountants and certified public accountant of New York and New Jersey.



## *Bulletin of American Institute of Accountants*

No. 14A—Senior accountant, age 38, with 10 years' experience in public practice as a staff assistant. Has qualified to take New York C. P. A. examinations in November, 1928. Salary \$60. Prefers position in the city of New York.

No. 17A—Semi-senior accountant, age 35, high-school graduate, wishes position in New York. Has had 1½ years' experience with public accounting firms and about 13 years as accountant in 3 private corporations.

No. 21A—Accountant with 3 years' public experience, age 31, high-school graduate, is seeking staff position. Resident of New York, but is not averse to considering position out of town.

No. 24A—Accountant with 14 years' public practice in England wishes position as senior assistant in New York. Married, age 38.

No. 25A—Member, American Institute of Accountants and chartered accountant (England) wishes satisfactory staff position in New York.

Age 42, unmarried. Salary commensurate with ability.

No. 26A—Senior accountant, C. P. A. of South Carolina, with 5 years' public experience, wishes staff position in any city. At present in Florida. Age 34, married. Salary \$3600.

No. 30A—Member, American Institute of Accountants, C. P. A. Minnesota, age 42, with 10 years' public accounting experience, wishes position in Minneapolis, Chicago, or some other city. Recently sold his own practice in order to engage in outside activities. Now wishes to re-enter profession. Married, with dependents. No objection to travel. Salary subject to arrangement.

The Institute has not investigated the statements made by these applicants and, therefore, can not assume responsibility for their accuracy.

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## OBITUARY

### W. S. Taylor

W. S. Taylor, a member of the American Institute of Accountants and a C. P. A. of Virginia, died on September 25, 1928,

at the age of 71. Mr. Taylor had been a member of the Institute since 1917. He was associated with W. P. Hilton, Norfolk, Virginia. Funeral services were held at Norfolk on September 26th.

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## HERE AND THERE

M. S. Carneiro and W. T. Chumney announce that they are associated in the practice of accounting under the firm name of Carneiro, Chumney & Co., with offices in the Milam building, San Antonio, Texas.

Earl S. Clark & Co. announce the removal of their Providence, Rhode Island, offices to the Industrial Trust building.

Herskowitz & Herskowitz, New York, announce the removal of their offices to the Transportation building, 225 Broadway.

Guy V. W. Lyman, Edward S. Rittler and Sidney S. Bourgeois announce the formation of a partnership under the firm name of Lyman, Rittler & Bourgeois, with offices in the Canal Bank building, New Orleans.

Rusk & Williams, Cleveland, Ohio, announce the removal of their offices from the Guardian building to 1836-1840 Engineers National Bank building.

Conrad Sauer, Jr. announces the formation of the firm of Conrad Sauer, Jr., & Co., with offices at 2014-15 Comer building, Birmingham, Alabama.

Announcement has been made of the association of Ben H. Whittaker, John F. Horton and Russell D. Keach under the firm name of Horton, Keach & Whittaker, with offices in the Subway Terminal building, Los Angeles.

J. Spencer Wolling announces the establishment of an office in the Railway Exchange building, St. Louis.

# BULLETIN

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NOVEMBER 15, 1928

SERIES B, No. 55

## New England Regional Meeting

A regional meeting of the American Institute of Accountants will be held at the Hartford club, Hartford, Connecticut, on November 23rd, as announced in the October *Bulletin*.

Members and others interested in accounting are urged to attend. An attractive programme has been arranged by William Z. White and Walter Musgrave, members of the committee in charge of arrangements. Addresses by Charles B. Couchman of New York, by Edward F. Hall, commissioner of finance and control in Connecticut, and by other speakers will occupy the early sessions. Mr. Couchman will speak on "The trend of accountancy," and Mr. Hall's address will deal with the progress of accounting in Connecticut during the past two years. A banquet will be served in the evening. The president and the secretary of the Institute will be present at the meeting.

## 1929 Annual Meeting

The Institute at its meeting of September, 1928, resolved that the choice of a place of meeting for 1929 should be left to the executive committee with full power. That committee after consideration has decided that the meeting shall be held at Washington, D. C. The dates in accordance with the by-laws will be September 16 to 19, 1929.

## Amendment to By-laws Carried

An amendment to the by-laws of the American Institute of Accountants, permitting in certain circumstances the remission of dues of members who have reached advanced age, was declared effective by the president on October 15th. The

amendment was adopted at the annual meeting of the Institute and subsequently was approved by a majority of the membership by referendum ballot.

## 1928 Year-book

The 1928 *Year-book* of the American Institute of Accountants will be published November 16th and will probably be in the hands of members shortly after this *Bulletin* reaches them. The *Year-book* contains the names of officers and of members of council, of the board of examiners and of committees. Alphabetical and geographical lists of all members and associates are also included. A report of the 1928 annual meeting of the Institute at Buffalo, September 17th to 20th, is presented. Reports of officers and committees are published in full. The *Year-book* also contains the names and addresses of members of state boards of accountancy, the Institute's by-laws and rules of professional conduct, and the rules of the board of examiners.

Each member and associate is entitled to a copy of the *Year-book* without charge. Additional copies may be obtained at a price of \$1.65 delivered in the United States or Canada.

It is requested that any errors in the book be reported promptly to the offices of the Institute in order that the records may be corrected accordingly.

## Institute Examinations

Thirty-two states are coöperating with the American Institute of Accountants in the conduct of the examinations of November 15th and 16th. Six of the states which regularly coöperate with the Institute are not holding examinations this fall.

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## **Committee Appointments**

The president of the American Institute of Accountants has appointed the following committees to serve for the year 1928-29.

### *Committee on arbitration:*

P. G. Bixby, *chairman*, New York  
H. C. Crane, Alabama  
E. B. Hathaway, Connecticut

### *Committee on budget and finance:*

V. H. Stempf, *chairman*, New York  
J. S. Snelham, New York  
R. G. Sparrow, New York

### *Committee on by-laws:*

John P. Archer, *chairman*, New York  
H. R. Caffyn, New York  
C. S. Rockey, Pennsylvania

### *Committee on credentials:*

W. B. Franke, *chairman*, New York  
C. C. Croggon, Maryland  
Charles Weissinger, Pennsylvania

### *Committee on education:*

#### *For 1 year:*

J. Hugh Jackson, California  
G. V. W. Lyman, Louisiana

#### *For 2 years:*

John R. Wildman, *chairman*, New York  
David Himmelblau, Illinois

#### *For 3 years:*

J. O. McKinsey, Illinois

### *Committee on federal legislation:*

C. R. Trobridge, *chairman*, New York  
N. L. McLaren, California  
L. A. Oates, Florida

### *Committee on meetings:*

Wayne Kendrick, *chairman*, District of Columbia  
J. J. Hastings, New Jersey  
G. H. Porter, Maryland

### *Committee on publication:*

J. B. Niven, *chairman*, New York  
A. R. Grant, Illinois  
C. H. Schoolar, Texas

### *Committee on state legislation:*

L. G. Fisher, *chairman*, Rhode Island  
Clem W. Collins, Colorado  
J. G. McIntosh, Washington

### *Special committee on administration of endowment:*

G. O. May, *chairman*, New York  
Archibald Bowman, New York  
Charles S. Ludlam, New York  
A. W. Teele, New York  
Arthur Young, New York

### *Special committee on asset valuation on the balance-sheet:*

William Whitfield, *chairman*, Oregon  
E. L. Barette, California  
W. A. Musgrave, Connecticut

### *Special committee on cooperation with arbitration associations:*

A. S. Fedde, *chairman*, New York  
Harold Benington, Illinois  
Elkin Moses, Louisiana

### *Special committee on cooperation with bankers:*

William B. Campbell, *chairman*, New York  
Anson Herrick, California  
A. F. Lafrentz, New York  
William H. West, New York

### *Special committee on definition of earned surplus:*

Arthur Andersen, *chairman*, Illinois  
Arthur Medlock, Illinois  
John A. Stolp, Illinois

### *Special committee on natural business year:*

H. T. Scovill, *chairman*, Illinois  
Eustace LeMaster, Washington  
A. G. Moss, Texas

### *Special committee for placements:*

W. W. Nissley, *chairman*, New York  
W. H. Bell, New York  
F. J. Clowes, New York  
W. S. Gee, New York  
A. M. Peisch, New Hampshire

### *Special committee on procedure:*

Luther K. Watkins, *chairman*, New York  
E. L. Kohler, Illinois  
C. F. Rittenhouse, Massachusetts

### *Special committee on terminology:*

Walter Mucklow, *chairman*, Florida  
H. C. Freeman, New York  
F. W. Thornton, New York

## **Annual Meeting, Northern Ohio Chapter, American Institute of Accountants**

The annual meeting of the Northern Ohio chapter of the American Institute of Accountants was held at the Hotel Cleveland, Cleveland, October 18th. Twenty-eight members were present. W. P. Moonan was elected president, Floyd Chilton, vice-president, and Lewis Wintermute, secretary-treasurer. W. J. Taylor and F. L. Zwemer are directors. By direction of the chapter the president re-appointed a committee to publish a supplement to the chapter's roster, to be sent to bankers, lawyers and business men in northern Ohio. A report of the annual meeting of the American Institute of Accountants at Buffalo, September 17 to 20, 1928, was given.

## **President of Institute Addresses North Carolina Accountants**

"No-par stock and its relationship to asset valuation" was the subject of an address by Frederick H. Hurdman, president of the American Institute of Accountants, at a meeting of the North Carolina Association of Certified Public Accountants at Charlotte, North Carolina, October 19th. Mr. Hurdman presented arguments for and against no-par stock and analyzed provisions of the North Carolina laws appertaining to the subject. He mentioned difficulties which arise in asset valuation when stock has no par value. The theory of no-par stock as applied to common stock is fundamentally sound, Mr. Hurdman believes, and the difficulties encountered in its use arise largely from misunderstanding of the accounting principles involved on the part of those who draft laws and of many of those whose duty it is to deal with the problems. He recommended the following general remedies for the troubles caused by the existence of no-par shares:

1. Uniform action by all states prohibiting the declaration and payment of dividends except out of earned surplus.
2. Definite understanding as to what does and what does not constitute earned surplus.
3. The adoption of a simple segregation on the balance-sheet distinguishing capital from earned surplus.

## **Institute Members at Bankers' Meeting**

Accountants' certificates and requirements for a balance-sheet audit were subjects occupying the attention of members of the Robert Morris Associates at a session of their midyear meeting on October 30th at Cleveland, Ohio. Henry B. Fernald and Charles B. Couchman, both members of the American Institute of Accountants, read papers on these two subjects. Frederick H. Hurdman, president of the Institute, also spoke, and the accountants' remarks were followed by an open discussion. The speakers were questioned on the subjects of their addresses.

The Robert Morris Associates had extended an invitation to all members of the Institute to attend this meeting and the invitation was accepted by many account-

ants. Members of the Institute from Cleveland, New York and Boston were present.

The papers by Messrs. Fernald and Couchman will be published in *The Journal of Accountancy* in the near future.

## **Coöperation between Accountants and Bankers**

At the semi-annual meeting of the Robert Morris Associates at Cleveland, Ohio, October 30th, Harvey E. Whitney, chairman of the committee on coöperation with public accountants, presented the following report:

### **REPORT OF THE CHAIRMAN OF THE COMMITTEE ON COÖPERATION WITH PUBLIC ACCOUNTANTS**

This is not a report of our committee as such, but rather of the chairman, and to that extent he must assume personal responsibility for its text. Important matters that developed only during the past two or three weeks precluded the drafting of the report a sufficient time in advance of this meeting to submit it to his associates on the committee.

In the report read at the June meeting in Seattle, our committee laid emphasis upon what we regarded as a real danger, namely, the acceptance of a financial statement bearing a certificate to the effect that it is correct "as shown by the books," giving therefor our reasons and citing two specific instances where statements over a period of years had borne unqualified certificates, whereas those of more recent date incorporated the phrase just referred to. We furthermore stated that in one case accounts were maintained with three banks in New York, one in Chicago and two in St. Louis, and in the other case an account was maintained with a bank in New York and with a bank in St. Louis, all the banks in both instances being members of the Robert Morris Associates.

If our contention is correct that this phrase is a danger signal, can you imagine the chairman's surprise and disappointment that not a single member of the Associates who attended the meeting in Seattle or who read the report in our *Bulletin*, was sufficiently interested to ask as to whether his bank was one of those involved. Your chairman felt constrained, therefore, to express himself very forcibly upon this point to a number of the members during the past few months, and has been somewhat surprised at the opinions expressed.

One member particularly close to the activities of the committee stated that he could understand why we had not received an inquiry from any one as he believed nearly all the members were under the impression that the work which the committee is doing is very largely confidential and that such information as the committee possesses which it feels it can consistently impart to members will be furnished voluntarily. This indicates a completely perverted idea of the manner in which we operate. Our activities, we are sure, would very soon be brought to an untimely end if, in presenting such facts and criticisms as we have in the past, we used the names of the principals or the accountants involved. On the other hand, the statistics we have, while confidential so far as general publi-

cation is concerned, are available to each and every member of the Associates. There is nothing in our files not open to any member interested enough to ask.

Again referring to our Seattle report, we cited the case of a commercial-paper broker where, in reproducing a financial statement for distribution in connection with the sale of the paper, he omitted two paragraphs from the accountant's certificate, one commenting as to the manner in which the inventory was taken and the other stating that a contingent liability existed as of statement date. In other words the broker had used merely the concluding paragraph of the certificate which was to the effect that in the opinion of the accountant it was a true and correct showing of the company's financial condition. It seems to us, and we so stated, that the doubtful ethics of such a practice were obvious. Your chairman can not by any stretch of the imagination understand how a member can listen to such a statement of facts, provided he is a buyer of commercial paper, without wanting to know the name of the broker, and yet again we received not a single inquiry upon this point.

We might state in passing that this is not the only criticism of a similar type that has been directed against this particular broker; therefore, it is particularly gratifying to be able to advise that since our last report one of the members of our committee discussed this practice with the broker's branch office from which these statements have been emanating and received assurances that it would be discontinued.

As against such camouflaging tactics we have many evidences of sound policies on the part of other brokers. In one case a broker ascertaining that the audited statement included in accounts receivable a substantial amount due from a 100% owned affiliated company and that a contingent liability existed, made a footnote to this effect on the statement submitted to the banks, not holding back this information in their files, waiting until some bank asked for it. Another broker has submitted to your chairman a letter they have sent out to all their clients, and to all the public accountants who certify to statements of their clients, emphasizing the importance of having all statements audited, which letter is accompanied by a sample balance-sheet they recommend, on which are segregated the various items which are so often a matter of criticism, and includes two or three suggested forms of certificates which reflect the scope of the examination.

The letter which President Barnes addressed to each accredited representative the early part of September was intended to stimulate a desire upon the part of a considerable number of our members to find out what it's all about, and then having done that to take upon their shoulders their share of the burden, because the success of our efforts will be measured by the breadth of our activities and to the extent that we gloss over or neglect these matters we are making the road harder for right-thinking accountants and easier for wrong-thinking accountants; another way of saying that we are inviting preventable credit losses.

In answer to his letter Mr. Barnes received approximately one hundred acknowledgments, all promising cooperation with the committee when opportunity offers, and a number citing instances

where they had taken up faulty audits embracing contingent liabilities not disclosed, items wrongly captioned, etc., direct with the accountants. In the opinion of your chairman this is the ideal way of handling such situations, not because from a selfish standpoint it saves him time and trouble, for he has never knowingly shied at either one, but because this should be an organization and not a mere committee movement. It is only a 50% job, however, unless the circumstances, with the name of the accountant, are reported to the committee.

Two or three members asked specifically whether any of the instances cited in the committee report read at the Seattle meeting concerned their accounts and two members outlined experiences which were identical, to the effect that when they had criticized certain accountants because of indifferent work, the explanation had been that the principals had insisted on a cheap job and that is exactly what they had turned out, and as the banks had never raised any objection to the reports, it had been impossible for the accountants to persuade their clients that the job should be done right. This, of course, brings up the ever-present question as to how lax an accountant may safely be in making his audit in order to keep the business and show a profit to his firm at the price set, yet not compromise his conscience nor mislead the ultimate consumer, the bank. And right here is where we can and should fit in by insisting that the accountant be allowed to make such checkings as will enable him to give an unqualified certificate.

One member brings out an excellent point that it is up to the credit manager to take a firm stand on such matters and furthermore put across his ideas with the executive lending officers. There is no use in having a loaded gun if you are afraid to shoot when the time comes. I am sure none of you will be surprised when I tell you that this particular member starts his letter with the following phrase:

"I am one of the youngsters in our association but the ethics and high standards of our profession have been well drilled into me, I having trained under Jack Eaton."

We have letters from California, from Florida and from Rhode Island indicating that members at these points have been appointed to committees to cooperate with accountants and besides this there have been many joint meetings of local chapters of the R. M. A. and accountants which have resulted in a free interchange of views and a better understanding of one another's problems.

A specific instance of our lack of attention to the wording of certificates is a case where the December 31, 1927, statement bears a certificate as follows:

"We hereby certify that subject to the comments attached to our complete report of above date, the balance-sheet herewith is a true statement of the financial condition of the company on December 31, 1927, to the best of our knowledge and belief."

This was a commercial-paper name and a member of our committee, being curious to know what the comments were, called for the complete report ascertaining that the books were kept open for a week or ten days after the turn of the year in order to get credit for certain receipts and payments. Liberty bonds, while only a small item, were hy-

## Bulletin of American Institute of Accountants

potheated by the company to insure certain performances by it, and the merchandise account had not been verified as to quantities or values. The sad part of this is that the broker advised that he had been offering this paper with this balance-sheet for six months or more and this was the first request he had ever had to produce the comments.

Instances are continuing to be brought to our attention where in audited statements the inventory account has been over-valued. In one case during the past year the accountant gave an unqualified certificate and had no recourse except to admit his carelessness when the insolvency of the firm brought out the true facts.

In another case the accountant points to the phrase in the certificate reading:

"The inventory as stated is taken, priced, computed and certified to by the management, but tested by us as to mathematical accuracy."

When such a phrase appears it is a measure of precaution to be able to discuss it with the accountant and quite often this would undoubtedly lead to a further investigation on the part of the bank and might result in locking the stable door before, rather than after, the horse was stolen. Possibly the best answer to this big topic of inventory valuations is that the banks should urge their customers to adopt the practice of having the inventory taken under the supervision of the accountants with the alternative that where this is not practicable the accountant be afforded the opportunity of making such tests as he may deem necessary in order to give an unqualified certificate. It is often hard for the accountant to persuade the client to have this work done and it behooves us to help this cause along which we can do in one way by commenting favorably on statements which include inventory verification, and unfavorably on those that do not.

When all is said and done, however, we wish it were possible to insist upon an elimination from accountants' certificates of what your chairman sees fit to term "weasel words" such, for instance, as in the case just cited where the accountant refers to the inventory as certified to by the management "but tested by us as to mathematical accuracy." This should mean nothing except possibly a danger signal to the credit man and yet it unquestionably throws him off the scent. The fact of the matter is, the accountant supervises the taking of the inventory or checks it to his own satisfaction, or else he doesn't.

Another phrase that it seems to us would qualify in this category is to the effect that the statement of the company is correct "as a going concern." Still further is the occasional practice of indenting the various items that usually appear as current, namely, cash, receivables, merchandise, advances, etc., and carrying these forward in a sub-total but not labeling them current assets. This is obviously an attempt to create the impression that the items are current, but if it is discovered that a number of non-current items are included, the accountant can point to the fact that he did not label the block as current assets.

I can not close this report without referring again to the cordial cooperation evinced by the committee on cooperation with bankers of the American Institute of Accountants, in all matters we have

had occasion to take up with them, and this applies as well to the individual accounting firms with whom we have from time to time discussed in person questions concerning their audits.

Respectfully submitted,

H. E. WHITNEY, *chairman.*

### An Experiment in Choice of Staff Assistants

At the annual meeting of the American Institute of Accountants, on September 18th, Warren W. Nissley, chairman of the Institute's special committee for placements, read the following paper on the origin and accomplishments of the bureau for placements:

#### THE BUREAU FOR PLACEMENTS—AN INTERESTING EXPERIMENT

A number of members of the Institute attending the annual meeting held in Washington, D. C., in 1925 had an informal discussion concerning the type of young men who were applying for positions as junior assistants in public accountants' offices. It was the consensus of opinion among these members that some effort should be made to obtain more recruits with those natural qualifications which are necessary if assistants are to develop into full-fledged accountants and become a credit to their profession later on. The subject was discussed at some length by a considerable number of representative accountants at several meetings which were held in New York during the latter part of 1925, and the same conclusion was reached at these meetings. A group of these accountants, all of whom are members of the Institute, appeared before the executive committee and suggested that the Institute should take some action to meet the situation.

As a result of this conference, the special committee for placements was appointed during the early part of 1926. Its annual reports to the council of the Institute for 1926 and 1927 have been duly printed in the *Year-book*. Many members have learned of the bureau, which was established by the committee, from these reports and from communications of one sort or another which they have received directly from the bureau. It seemed desirable, however, that the complete story of its activities should be presented to the entire membership at this time even though this may involve some repetition of information which has already appeared elsewhere. What has been done to date has been largely of an experimental nature, and the Institute will have to decide within the next year or two whether or not the bureau is to become one of its permanent activities.

The programme of the committee thus far has been limited to an effort to create an interest in accountancy as a life work among the desirable men in the graduating classes of our colleges and universities each year, and to provide the machinery through which acceptable men from this group might find positions with accounting firms. Before considering the methods used in developing this programme, it might be well to discuss in some detail

the apparent need for obtaining junior assistants better than the general average men available.

We were advised in 1926 by a responsible college officer that the result of a survey made by a group of college professors indicated that very few of the best men who had been graduated from the colleges during a number of years preceding 1926 had entered public accountants' offices and that both the percentage of the total and the quality of the graduates taking up this work were showing a tendency to decrease from year to year. We learned that many professors and personnel directors were inclined to advise their students against taking up accountancy as their life work. It also appeared that many important commercial and industrial organizations were making a direct appeal to these men each year. This information, when taken in conjunction with the experience and observations of the members of the committee in their own practice and elsewhere, seemed to be conclusive evidence that something had to be done if we wished to obtain any considerable number of recruits from this source.

That, of course, brings up the question of whether or not we want them, which in turn raises the issue as to whether these men become satisfactory junior assistants or not. By satisfactory junior assistants I mean men who will render satisfactory service as juniors and who, at the same time, can and will develop into senior accountants within a reasonable period of time. There is little doubt that "permanent juniors" can be more readily obtained from other sources but a firm which does not have a considerable percentage of its juniors of the type which can be developed must necessarily draw upon other firms for its senior replacements, and the latter, under present demands from clients for good men trained in accountancy to fill important places in private organizations find difficulty in maintaining personnel of high quality. It is obvious that unless a majority of the accounting firms had a definite policy for developing at least some juniors into senior accountants, the accountancy profession could not progress very far. Under present conditions it would be unwise to seek all such men in the colleges, but it appears equally unwise not to obtain a considerable number of them there.

The most conclusive evidence of the value of college graduates to accountancy should be that furnished by the records of those now in the profession. A few firms have for some time been quietly obtaining some of these men each year and where their relations with the colleges have been such that they got the best men the results have been most satisfactory. When men of mediocre or poor ability have been obtained, the results have not been satisfactory. That is what must be expected, for it is unlikely, though not impossible, of course, that a man who has a poor record in college will ever succeed in any profession where one of the requisites is mental ability.

The fact that only a comparatively small percentage of successful accountants today are college graduates might appear to indicate that it is not necessary to make any considerable effort toward obtaining men from this source, but that is not the complete answer to the question. It is necessary to consider conditions facing the youth of the land today compared with those existing when the

present leaders were young, and to consider also the differences in the demands on accountancy practitioners then and now.

Twenty-five years or more ago, when the present leaders among the public accountants were at the age when they had to decide whether they would go to work or go to college, or even to high school, most boys with brains, ambition and good personality elected to get a job unless they were interested in the law, medicine, the ministry, teaching or engineering. During recent years, on the other hand, a great number of boys of this type who are interested in business or commercial pursuits, and are ideal material for accountancy, manage to go to college, since it is now generally considered—by the boys at least—that a man with the right stuff in him has a better chance for success with a college education than without one, no matter what his life work is going to be. It is worthy of note that the number of young men in the colleges increased 25% from 1922 to 1927 and that the total enrolment of full-time students at the 211 institutions on the approved list of the Association of American Universities on November 1, 1927, was 410,712.

The public is demanding more of accountancy practitioners than ever before. The work which accountants were originally asked to perform consisted almost entirely of ascertaining comparatively simple financial facts, largely the history of past transactions, and reporting them to others. These reports were required principally for their historical value and to assure those interested that no irregularities were included in the transactions covered.

For this work, the essential qualifications of the accountant were careful work habits, absolute integrity and sufficient mental acumen to understand the real significance of the transactions whose records he examined. This work still does and probably always will constitute a large portion of the work done by organizations of public accountants, and these qualities are just as necessary now as they always were for both staff accountants and principals. But the vast increase in the size and complexity of modern commercial, industrial and financial organizations requires a higher degree of intelligence for the work than ever before.

Moreover, the steady development of cost accounting and the use of financial facts to control business activities has caused the public to demand that, in addition to ascertaining and reporting financial facts, the accountant be able to interpret them and give sound and constructive advice for the future based upon the historical data he has prepared to describe the past.

Unless the accountant has sufficient vision, imagination and breadth of view to apply his general business knowledge to the peculiar conditions of the project under consideration, his advice is not likely to be very valuable. It is probably true that the accountant's work in interpreting and using financial data has had far more to do with the increased esteem in which the profession is held by lawyers, bankers, business men and the public generally than has the preparation of the data, however valuable and necessary the latter function may be. The greatest opportunities for the progress of the profession in the future seem to be in the direction of interpretation and application, and for this work men having the best natural mental

ability and a well rounded mental training are needed.

If a large proportion of the boys with brains, ambition and personality, the qualities which are so necessary to reach a position of leadership in any business or profession in this age, is in the group of students in colleges, even though it is admitted that the majority of the same group does not have these natural qualifications, accountancy must suffer severely in the long run if it does not obtain a proper proportion of the desirable young men, even though the time they spend in college were to be considered of no value to them.

This training and experience should, however, be of the greatest value to the right type of boy both at the start of his career and particularly as he develops. Some of the most general criticisms of accountants perhaps are that they lack imagination, are unable to express themselves so that the layman can understand them, are unable to appreciate the layman's viewpoint and are unable to discuss in an interesting manner subjects not related to accountancy. Unless our system of higher education is all wrong, a graduate who has made a good record should have a mind trained to think. The so-called cultural courses particularly are designed to provide mental gymnastics both along the lines of reasoning and of imagination and it is for this purpose that they are of value rather than for the information received and retained from them. Students should learn how to express themselves, although many appear to be weak in that direction. More important perhaps than any of these things is the ability to mix well with people of all kinds and to understand the other fellow's viewpoint, which should be acquired by four years of intimate association with hundreds or thousands of other boys, particularly in those institutions which draw their students from all walks of life and from all parts of the country. The importance of these qualities can not be overestimated since staff accountants are, of necessity, rubbing elbows with the most important officers from the time they start work. As they develop into seniors, they have an important responsibility in maintaining with the clients the reputation of their principals. These are the characteristics, moreover, which are so frequently lacking in boys who come directly from local high schools or business schools where their associates are likely to be boys of about the same type as themselves.

These comments necessarily deal with generalities. It will probably be true for many years to come that a very important part of the new blood for public accountants' offices will be provided by exceptional individuals who have not had a formal education, and it would be most unfortunate if an impression were created that there is no chance for them. There is probably no profession which offers greater opportunities than accountancy at this time to young men with the right temperament, natural qualifications and a will to succeed, no matter how much formal education they have had. These men will continue to acquire the equivalent of such an education by independent study in the future as other men with the determination necessary to become leaders have done in the past.

The foregoing may appear to be a lengthy preamble but it seemed desirable to have a complete record of the reasons for appointing this committee.

As was stated at the outset, the work of the committee fell into two main subdivisions:

1. Arousing interest in accountancy among college students.

2. Creating machinery for placing desirable applicants in positions.

The committee, with some outside assistance, prepared a booklet containing what we hope is a dignified statement of the opportunities in and the work of the accountancy profession. This booklet was designed to attract boys who, upon mature deliberation and after considering all the facts, themselves decided upon accountancy as their life work and were likely to be contented and successful as accountants. Many organizations of other kinds send representatives to the important colleges each year who actually compete with each other to sign up the good men. We think this system is likely to be unsatisfactory in the long run to both the students and the employers. Our original booklet was considerably revised the second year with the assistance of the personnel directors of several large universities. Almost 14,000 copies of these booklets have been distributed to students. Through the cooperation of the colleges, we have been able to obtain a large number of notices in student publications. Several members of the Institute have assisted us by giving talks on accountancy to groups of interested students at institutions in their respective vicinities. Many of the instructors in accountancy at various colleges have also explained our plan to the students in their classes. As a result of this work, there undoubtedly is among college students a better understanding of the work of a public accountant than there was three years ago.

Our efforts have been directed to all the well known colleges in the country regardless of the extent of the technical courses related to accountancy which they offer their students. The widespread nature of our activities is evidenced by the fact that applications have been received from 709 graduates of more than 125 different institutions. This was necessary because we were seeking primarily men who had the natural qualities necessary for development rather than men with technical training. There is no doubt that the ideal junior is one who has the requisite mind and personality to make his development comparatively certain and, at the same time, has been taught the fundamental facts of bookkeeping and accountancy, in addition to sufficient cultural subjects to give him a broad viewpoint, but if there are sufficient students of this type available to meet our requirements, we have been unable to find them to date.

Our motives were not completely understood at first and resulted in some misunderstandings both with members of the Institute and with instructors in accounting at the colleges. Some of the members were disappointed when we referred boys to them who had no technical instruction. Some of the instructors were disappointed that we did not limit our choice to graduates of technical accounting courses, and a few of them apparently misunderstood us to the extent of believing that we actually preferred men who had not studied anything directly related to accountancy. We hope that all these misunderstandings have now been cleared up and that everyone knows we are seeking men with certain natural qualifications who have spent four years at a college in close association with a lot of



## Bulletin of American Institute of Accountants

other young men and have made an outstanding record, no matter what they have studied, although, other things being equal, it is desirable that they be familiar with elementary accounting principles at least.

I can not let this occasion pass without giving voice to my personal hope that in the near future there may be developed a technical school or schools operated independently or as part of an existing institution which will provide a course of instruction designed solely to fit men for the professional practice of accountancy and will accept only students who have completed satisfactorily a so-called cultural course of at least two years, and preferably of three or four years, at a recognized college. So far as I know, no such school exists today. There are colleges which offer courses majoring in accounting but since only a small percentage of their graduates become public accountants, they can scarcely be said to be concerned solely with training men for our profession. Such a school would be to accountancy what the Harvard and Columbia law schools are to the legal profession, what the College of Physicians and Surgeons and Johns Hopkins are to the medical profession, and what the Massachusetts Institute of Technology and similar institutions are to the engineers. I believe such a school would be of incalculable value in elevating the standards of accountancy practice, and that any accountant who is looking for a useful project to mention in his will could do no better than remember this one.

In arranging to place the applicants who were approved by the committee after a thorough investigation, it was necessary to adopt some simple rules. Among other things, we realized that there was little hope of attracting the type of men we wanted unless they were removed from the hazards of temporary employment until they had a chance to demonstrate their ability or the lack of it. The basis of employment adopted, which was stated in our report for 1926 but might be repeated here, is as follows:

1. No men need be employed without a personal interview with the member.

2. Employment is to be for a period of at least three years unless the applicant is found to be unsuited for the work, i. e., he is not to be discharged for lack of business. On the other hand, the applicant agrees to stay three years.

3. The minimum salary the first year is to be \$125 per month with stated annual minimum increases as arranged in advance between applicant and employer. There is no objection to paying a man a higher salary than the minimum.

As the operation of a placement bureau was a matter with which the members of the committee had had no previous experience, plenty of practical difficulties were encountered—particularly at first. We think many of these have now been overcome. Others, especially those concerning the geographical locations of applicants and employers in some cases, are still troublesome, but time and experience will solve most of these problems.

It is probably true, unfortunately, that in spite of our best efforts the experiences of some applicants and of some members in dealing with the bureau have not been satisfactory. But, on the other hand, the great majority of members who have used the

facilities of the bureau have written us that they are well satisfied with the service rendered. At September 15, 1928, 111 young men had been placed in positions and as there are still 71 active applications from 1928 graduates we expect that quite a few more will be employed before the end of this year. There have, doubtless, been many more men employed through direct applications filed with particular firms as a result of the interest aroused by the bureau's publicity. Most of these men are getting along satisfactorily according to the reports received from their employers. Many of them are of the finest type of young men and the general average of quality has improved each year as the standards of the bureau have become better known.

The minimum salary of \$125 a month appears to be generally satisfactory on the theory that it is about the smallest amount on which a boy can live decently in most cities if he does not live at home. We have given considerable thought recently to the three-year employment provision. Some of the members think the period is too long, others desire no change, and a few would prefer to have it increased. It is probable that in some cases a man may give definite indications in a shorter period that he will never develop into a senior accountant, although his work and conduct as a junior may be satisfactory, but it is generally believed that a college graduate requires a year or more to become acclimated, after which he should progress rapidly. All firms, of course, are willing to carry for a longer period men who continue to show promise of development. If the bureau is continued, further study should be made of this matter. It may be that the most satisfactory solution would be to continue the three-year basic arrangement with the understanding that an annual appraisal of a man's prospects will be made and if at the end of any year the employer does not believe the man shows promise of developing into a senior within a reasonable length of time, the engagement may be terminated.

We have not attempted to suggest any method of training these men after they are engaged. Some firms have a school for juniors but in most cases they are taught by putting them through the mill. It is probably undesirable in most cases to treat these boys any differently from other boys employed as juniors—both from the viewpoint of office discipline and for the best interests of the boys themselves. If they are made of the right stuff, they will catch on rapidly enough.

During the first two years, and during part of this year, the expenses of the bureau have been met by voluntary subscriptions aggregating \$8,515 received from members. Beginning some months ago a charge of \$50 has been made to the employer for each man placed. This should just about make the bureau self-supporting. A considerable part of these expenses is for the general publicity work among the colleges, which should be of benefit to all members who employ assistants and should result in a better understanding among the public in general of the place of accountancy in the economic scheme of things. If the bureau is continued, the council might give consideration to an annual contribution toward expenses which would result in a lower charge for obtaining assistants.

The committee believes that the results achieved to date during the experimental stage warrant a

continuation of the bureau along the present lines for a few years more at least. The publicity feature of the work should be continued indefinitely and it is doubtful whether that would be very effective unless it were combined with some method of referring to firms applicants who are interested. If the approved applicants are restricted to exceptional men, and enough of them can be obtained, most firms should be able to obtain in this manner a large percentage of this type of recruits with less trouble and expense than by direct dealings with the colleges.

### **Arbitration Laws to Be Proposed**

The legislatures of 37 states will probably consider arbitration legislation during the 1929 sessions. The American Arbitration Association is planning to introduce bills based on its draft state arbitration act in an effort to effect legal recognition of commercial arbitration in states which at present have no laws to uphold the validity of arbitration awards.

The American Institute of Accountants is one of the organizations coöperating with the American Arbitration Association. The president of the Institute has appointed a special committee on coöperation with arbitration associations to assist in the work of facilitating and strengthening commercial arbitration.

### **Institute Represented at Arbitration Association Luncheon**

A. S. Fedde, chairman of the Institute's special committee on coöperation with arbitration associations, represented the Institute at a luncheon in honor of Antonio S. de Bustamante, Cuban jurist, at the Bankers' club, New York, Friday, October 19th. The luncheon was tendered by the American Arbitration Association. Morgan J. O'Brien, former judge of the supreme court of New York state, presided. The speakers were John Bassett Moore, former member of the world court on international justice, and William C. Redfield, former United States secretary of commerce.

### **Investment Bankers Favor Regulation of Investment Trusts**

Independent audits of investment companies were suggested as a means of regulation at the annual meeting of the Investment Bankers Association of America, in the report of the committee on investment

companies, presented October 17th. The report advocated among other things a system of regulation for investment trusts which would, first, facilitate the practice of furnishing to investors and prospective investors information enabling them to gauge the quality of the company, and would, second, permit the proper state authority to investigate and if necessary prosecute unworthy enterprises. The committee stated that it was opposed to any legislation which would tend to standardize the form or activities of investment trusts. Under such standardization, it was stated, doubtful companies might comply with the outward requirements and use them as a cloak to gain public confidence.

To furnish information to investors, the committee recommended that investment trusts be required to disclose in their prospectuses the following data: complete list of officers and directors; outline of plan of capitalization; whether the securities offered are secured by any lien or represent merely a general debt; whether there are in existence any liens upon the assets or not; what restrictions exist regarding the investment powers of the management, and whether audited statements will be published or not, and if so, how frequently and to what extent information will be released.

In order to provide proper governmental supervision, the committee suggested that state authority be given broad powers of investigation, such as the right to require that the companies furnish a statement of earnings, balance-sheet and other information appertaining to the financial condition or management of investment companies. Periodic audits by independent auditors should be required and the names of the auditors disclosed.

### **Banker Approves Rules for Investment Trusts**

The *Bulletin* for May, 1928, contained an article describing rules for the regulation of investment trusts in California, promulgated by the state corporation commissioner.

General approval of this system of regulation, which includes a requirement that periodical statements prepared by certified public accountants be filed with the state corporation commissioner, was expressed by

Frank C. Mortimer, vice-president of the Citizens National Bank of Los Angeles, in a statement published in the *Journal of Commerce* for October 13, 1928.

### **Public Accountants at Hotel Accountants' Dinner**

The public accounting profession was well represented at a dinner tendered by Fred A. Muschenheim to the Hotel Accountants Association at the Hotel Astor, New York, October 29th. Among the guests were hotel executives, hotel accountants and auditors, and public practitioners.

After the dinner Mr. Muschenheim spoke briefly in praise of the late E. M. Statler and at the conclusion of his remarks the entire group stood for a moment in silent tribute to the memory of Mr. Statler.

F. A. McKowne, president of the Statler Hotels, Inc., spoke in approval of the activities of the Hotel Accountants Association and predicted that the importance of their efforts would continue to increase. Charles G. Stamm, who had recently returned from a trip to Spain, described conditions in the hotel industry in that country. Durand W. Springer spoke on the value of organization. Frederic W. Squires, chairman of the association's committee on depreciation, read a paper dealing with the depreciation studies of the bureau of internal revenue in coöperation with industrial groups, and showed the application of the study to the hotel industry.

Thomas E. Ross, president of the Hotel Accountants Association, presided.

### **Depreciation and Obsolescence in Hotels**

The American Hotel Association has published a pamphlet containing a report of its depreciation committee concerning a study of depreciation and obsolescence undertaken in coöperation with the bureau of internal revenue.

The report states that the committee has sent letters and questionnaires to all hotels which are members of the association and replies have been received from 2,232 hotels. An analysis of the replies has been made by Paul Simon, technical advisor to the committee. His analysis is also included in the pamphlet.

### **Accountancy in France**

In the *Bulletin* for August, 1927, mention was made of a new accountancy law passed in France on May 22, 1927, creating the designation "expert comptable," which is now officially recognized by the state.

The English-speaking accountants practising in Paris have made an effort to ascertain their position under the new law, and their efforts have evoked the following information. It is reported that there is no restriction as to the nationality of applicants who may sit for examination for the title of expert comptable. American or British accountants, or other foreigners, may sit for the examination on the same footing as Frenchmen. The period of practice required by the law may be in the service of British or American firms, as well as of French accountants. The time spent in professional practice by a practitioner maintaining offices on his own account may be counted as professional experience under the law, provided that such accountant places himself under the moral and professional patronage of an expert comptable.

Only French accountants may be accredited as experts comptables without examination.

### **Accountancy in Australia**

A royal charter has been granted to the Australasian Corporation of Public Accountants, providing for an Institute of Chartered Accountants in Australia. The Australasian Corporation was the only incorporated body on the continent whose membership was composed entirely of practising accountants and consequently the charter has been granted to it in trust for all reputable public accountants. Any person may be admitted to the Institute of Chartered Accountants in Australia, subject to the discretion of the council, who has been in practice for a certain time prior to the date of the charter, provided that his application be made within twelve months from the date of the charter.

The Commonwealth Institute of Accountants, it is understood, will have equal representation on the council of the new Institute, and practising members of the Commonwealth Institute will be admitted to membership on payment of the required fee.

### **Women in Accountancy**

There are better opportunities for women in accounting positions with private organizations than in public practice, according to Jennie M. Palen, a certified public accountant, who has written a chapter on accountancy as a career for women in a book entitled *An Outline of Careers for Women*, published by Doubleday, Doran & Co.

Miss Palen says, "There are women who have distinguished themselves and hold well paid positions in public accountancy. Up to 1927 about sixty women have received certified public accountant certificates from twenty-six states and the Philippine Islands. Several of these have established their own practices. A few have been admitted to membership in accounting firms. One woman served as president and as treasurer of a state board of examiners.

"Many of those who hold their certificates and a much larger number who are un-

certified have excellent positions with commercial concerns, in positions ranging from that of head bookkeeper to comptroller, treasurer or president.

"The intelligent woman who likes accounting and is trained in it will find a few opportunities in the profession and many more in commercial organizations. The private positions, generally speaking, are easier of access, offer better opportunities for rapid advancement, and are less exacting in their demands upon time and strength. Public work, on the other hand, has the fascination of constant variety, constant growth and contact with a great diversity of interesting and important matters."

### **Wisconsin State Board of Accountancy**

Nelson C. Hall has been appointed by Governor Zimmerman, of Wisconsin, as a member of the state board of accountancy. His term expires in 1930.

## **NEWS OF LOCAL SOCIETIES**

### **Alabama Accountants Participate in Dedication of College Building**

Members of the Alabama Society of Certified Public Accountants were invited by the authorities of the University of Alabama to attend the ceremonies to dedicate a new school-of-commerce building on October 20, 1928. A large number of members accepted the invitation, which was extended by Dean Bidgood in recognition of the coöperation by the society in the improvement of the school of commerce.

### **California State Society of Certified Public Accountants**

#### **SAN FRANCISCO CHAPTER**

The John F. Forbes medal for excellence in certified public accountant examinations was presented to Preston Leslie Shobe at a meeting of the San Francisco chapter of the California State Society of Certified Public Accountants on November 12th. Mr. Shobe sat for the May, 1928, examinations.

The programme included a discussion of the accounts of stock brokers, with James F. Smyth as the principal speaker.

### **Twenty-fifth Anniversary of the Illinois Society of Certified Public Accountants**

The twenty-fifth annual meeting of the Illinois Society of Certified Public Accountants was held at the Congress hotel, Chicago, November 13, 1928. The programme included three addresses, on public accounting in 1903, in 1928 and in 1953 respectively.

### **Calendar Revision Studied by Indiana Association**

The advantages of calendar revision are discussed in a bulletin issued by the public affairs committee of the Indiana Association of Certified Public Accountants under date of October 10, 1928. This is the first of six bulletins to be issued during the year 1928-1929.

It is said in the bulletin that accounts kept on the basis of a thirteen-month year with four weeks in each month would facilitate comparison of results for different periods.

Copies of the bulletin have been distributed to bankers and business men in Indiana.

### **Iowa Society Issues Bulletin**

The Iowa Society of Certified Public Accountants has issued a bulletin entitled "Accountancy service," for practitioners, their clients and other interested persons. The bulletin outlines briefly the general nature of the professional accountants' services and describes the common types of audits. It also mentions other constructive services which accountants perform.

### **Massachusetts Society of Certified Public Accountants**

A dinner in honor of about fifty candidates who had received certified public accountant certificates as a result of the May, 1928, examinations was given by the Massachusetts Society of Certified Public Accountants at the Parker House, Boston, October 22nd.

Percival F. Brundage presented a gold medal to Karl W. Baker, winner of the highest honors in the examinations. William Morse Cole, of the Harvard graduate school of business administration, spoke on "Some of the delights of accounting." His remarks included references to the obligations and responsibilities of accountancy practitioners.

### **Missouri Society of Certified Public Accountants**

#### **ST. LOUIS CHAPTER**

A programme of meetings of the St. Louis chapter, Missouri Society of Certified Public Accountants, for the year 1928-1929 has been published. Subjects to be discussed are as follows:

November 15th. "Retail method of inventory." Programme in charge of G. J. Nooney.

December 13th. "Tax problems." Address by R. Neuhoﬀ, attorney.

January, 1929. "Auditors' certificates." Joint meeting of members with local chapter of Robert Morris Associates.

March 19, 1929. "Standard costs." Address by H. Jack Bock. Discussion to be led by T. A. Maul. Joint meeting with St. Louis chapter of the National Association of Cost Accountants.

April 23, 1929. "How far should a balance-sheet go?" Address by A. A. Pieper.

May 21, 1929. Annual meeting, election of officers; golf tournament.

At a meeting of the chapter on October 23rd, A. H. Schettler presented a sketch entitled "An infernal audit."

### **Society of Certified Public Accountants of the State of New Jersey**

The October meeting of the Society of Certified Public Accountants of the State of New Jersey was held at the Elks club, Newark, October 15th. More than 85 members were present. J. P. Jenson, internal-revenue agent, spoke on coöperation between the commissioner of internal revenue and certified public accountants. Walter R. Darby, commissioner of municipal accounts of New Jersey, described the organization and development of the department of municipal accounts.

An all-day meeting of the New Jersey society will take place November 21st. An elaborate programme is being prepared.

### **Legislation, Inventories and Tax Practice Discussed at New York Meeting**

Three subjects of importance to the accountancy profession were discussed at an all-day-and-evening conference of the New York State Society of Certified Public Accountants at the Waldorf-Astoria hotel, New York, October 23rd.

In the first session, which commenced at 10:30 a.m., a draft accountancy bill, prepared with the sanction of the committee on legislation, was discussed section by section by Kenneth McEwen, of counsel for the society. Copies of the bill had previously been distributed to members. After several suggestions from the floor it was resolved that members should submit all criticism in writing to the committee before November 3rd; that alterations in the bill which seemed desirable in the light of these criticisms should be made, and that a revised draft should be presented at the meeting to be held November 26th. The bill in its present form is concerned chiefly with the administration of sections of the law protecting the C. P. A. certificate and providing discipline for certified public accountants engaging in discreditable activities. The new bill also provides that the designation "certified public accountants" may be used by firms in New York all of whose resident partners or managers are certified public accountants of the state. Provision is made for increased membership on the state board of accountancy; for an advisory council of certified public accountants to

coöperate with the regents, and for the organization of a committee on grievances composed of certified public accountants to which complaints against practising certified public accountants might be submitted.

A buffet luncheon was served at the conclusion of the first session. The afternoon session began with an address by C. Oliver Wellington, entitled "Accountants' responsibility for inventory verification." Mr. Wellington advocated the assumption of full responsibility for inventories by the auditor, both as to quantity and value. His arguments were substantially the same as those in his article on the subject which appeared in *The Journal of Accountancy* for September, 1928. Maurice E. Peloubet, who presented the next address, disagreed with some of Mr. Wellington's conclusions. He showed that in some industries it is almost impossible for an auditor to undertake to value inventories, and he said further that such activities are somewhat foreign to the generally accepted functions of an accountant. Mr. Peloubet agreed that it is desirable for the auditor to accept full responsibility for inventories, but said that he should do so only so far as the inventories could be verified and valued by recourse to accounting records and to other sources of information available to accountants as such, with special attention to title and liability. In a word, he distinguished between the accountant and the valuation expert and recommended that auditors avoid the duties of the latter, for which special training, unrelated to accounting, is required.

Discussion of the two papers was led by William H. Bell, Charles T. Bryan, Walter A. Staub, Charles R. Whitworth and Andrew Stewart. At the conclusion of the discussion it was resolved that a committee be appointed to study the question and possibly to recommend an official statement by the society of its opinion on the degree of responsibility for inventories which the auditor could be expected to assume.

"What does the future hold for accountants in tax practice?" was the subject of an address by Robert H. Montgomery at the evening session. He said that in his opinion federal income-tax practice would be a perfectly proper activity of public accountants for many years to come, but that the work would be increasingly com-

plicated. The speaker did not believe that there would be any widespread tendency on the part of corporations to permit officers within the organization to handle all tax matters, as the subject is one which will continue to require the expert knowledge of a professional practitioner. He intimated that accountants in the past have not always discharged their full responsibility in tax cases, and he stressed the necessity for a complete knowledge of changing laws and regulations and of current decisions of the courts, the commissioner and the board of tax appeals.

Discussion on this topic was led by Joseph J. Klein, Arthur B. Foye, Orrin R. Judd and Isidore Sack.

### **North Carolina Association of Certified Public Accountants**

The annual meeting of the North Carolina Association of Certified Public Accountants occupied three days, from October 18th to the 20th. Reports presented showed that an increase in membership of nearly twenty per cent. occurred during the year. A new constitution and new by-laws were adopted and progress was made in the association's efforts to effect closer coöperation between accountants and bankers in the state. During the year the association endorsed the use of the natural business year. The president of the association has visited different cities in the state and has strengthened the interest of members in the work of the organization.

William H. Zimmerman was elected president for the year 1928-1929, Orion N. Hutchinson was elected vice-president and George E. Wood, secretary-treasurer. Mr. Wood, who had been president during the past year, was elected a fellow member of the association for life. In addition to the officers, Kennon W. Parham, John B. McCabe and George H. Emery are directors.

Frederick H. Hurdman, president of the American Institute of Accountants, John E. Wilson and J. H. Shields of Duke University were speakers at the different sessions. Mr. Wilson's subject was "The natural business year" and Professor Shields spoke on "The duties of a controller." Mr. Hurdman's discussion on no-par-value stock is mentioned elsewhere in this *Bulletin*.

The programme of entertainment included an informal reception, dinner and entertainment at the Myers Park country club at which the accountants of Charlotte were hosts. The annual banquet was held at the Hotel Charlotte.

### **Oregon State Society of Certified Public Accountants**

A meeting of the Oregon State Society of Certified Public Accountants was held October 16th at Portland. A. L. Andrus spoke on "Depreciation in the lumber industry" and C. I. Conn read a paper on "Special features of construction accounting." The discussion of the latter paper was led by A. J. Tourtelotte.

### **State Societies to Cooperate**

At a joint meeting of the Washington and Oregon societies of certified public accountants held at Seattle in June, 1928, it was suggested that committees of each society be appointed to consider problems of mutual interest. Subsequently the suggestion was carried out. The Washington society appointed the following committee: R. D. White, chairman, C. L. Stone and Lawrence Giles. The Oregon society's committee consists of J. W. Hanks, chairman, L. D. Kork and C. L. Kelly. The two states are so situated that the problems of the accountancy profession in both are similar and the two committees will work together on any questions of legislation or other matters of common importance which may arise. They will also arrange for a joint meeting to be held in Portland, Oregon, in 1929.

### **Pennsylvania Institute of Certified Public Accountants**

#### **PHILADELPHIA CHAPTER**

At a meeting of the Philadelphia chapter of the Pennsylvania Institute of Certified Public Accountants, October 17th, Will-A. Clader delivered an address entitled "Investigations for prospective purchasers" which was followed by discussion. Members of the council of the Pennsylvania Institute were guests at the meeting.

#### **PITTSBURGH CHAPTER**

A meeting of the Pittsburgh chapter of the Pennsylvania Institute of Certified Public Accountants was held October 23rd. The

principal topics of discussion were the proposed issuance of a bulletin by the Pennsylvania Institute, the question of omitting members' dues for the first year following election and the activities of a newly formed committee of speakers.

John W. Chalfant spoke briefly on the subject of a local welfare fund which has recently been organized and may eventually develop into a community chest.

Maurice R. Scharff spoke on "Engineering and accounting." He directed attention to the rapid development of accounting for fixed assets and for depreciation, particularly in the public-utility industry. The coöperation of engineers and accountants in the solution of these problems is essential, according to Mr. Scharff.

The committee of speakers is a new activity of the chapter, which it is hoped may be of benefit to the profession in the state. A list of suggested subjects upon which members of the chapter may deliver public addresses has been compiled. Members have been requested to volunteer to speak on some of these subjects under the auspices of the chapter. It is recommended that no more than six addresses be given during the year before any one organization. Some of the topics proposed are "Fraud and its prevention in accounts," "Building-and-loan accounts and audits," "Pennsylvania state taxes," "The federal trade commission and its relation to competition," "Depreciation and depletion," "The Pennsylvania securities act and its application" and "Lack of capital, its evil and cure."

### **Annual Meeting of South Carolina Association**

At the annual meeting of the South Carolina Association of Certified Public Accountants held at Columbia, October 23, 1928, W. F. Ostendorff was elected president, M. T. Powers, vice-president, and J. Hall, secretary-treasurer. The annual banquet was held at the Ridgewood club, where Kenneth R. Kreps, a member of the state house of representatives, delivered an address. J. H. Shields of Duke University spoke on the duties of a controller. Walter G. Query, chairman of the South Carolina tax commission, was also a speaker.

At the business session resolutions were adopted advocating the use of the natural business year by industrial organizations.

A resolution was also adopted recommending the preservation of Woodrow Wilson's home in Columbia, as a memorial.

### **Annual Meeting of Texas Society**

The Texas Society of Certified Public Accountants will hold its annual meeting at San Antonio, November 30 and December 1, 1928. It is expected that the reports of the committees on legislation and on revision of constitution and by-laws, to be presented at the business session, will be particularly interesting to members. The committees on publicity and on education have been active during the year and will probably present important reports. Arrangements have been made for the presentation of technical papers.

The committee on arrangements consists of H. O. Fischer, chairman, Neal J. Gilligan,

R. B. Thrift, W. M. Aikman, C. B. Neville and C. H. Caveness.

The society's committee on natural business year has reported the results of a survey of the fiscal years used by various businesses in the state. Questionnaires were distributed early last summer among concerns of every kind and a compilation has now been made for all businesses or industries under consideration. Seventy-two industries are listed in the compilation and in only seventeen of them do the majority of firms give December as the month ending the fiscal year.

### **Virginia Society of Public Accountants**

The Cavalier hotel, Virginia Beach, Virginia, has been selected is the place for the annual meeting of the Virginia Society of Public Accountants, which will be held May 23 to 25, 1929.

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### **W. O. Ligon**

W. O. Ligon, a member of the American Institute of Accountants since 1923 and a certified public accountant of Oklahoma,

died on October 7th. Mr. Ligon had been in the practice of public accounting for thirteen years. He was a member of the firm of W. O. Ligon & Co.

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## **EMPLOYMENT EXCHANGE**

With the approach of the busy season, the number of requests for experienced staff assistants is increasing. There are at present several desirable positions available for accountants who are well qualified in all respects. Firms in various cities have expressed a willingness to interview senior and semi-senior accountants who are experienced and able.

The Institute is glad to register applicants for positions, even if no suitable opening is known at the time of application, but the employment exchange is unable to assist men without previous professional public accounting practice.

The following applicants are available at present:

No. 4A—Woman, unmarried, age 36, associate American Institute of Accountants and C. P. A. Experience includes three years with New York public accounting firm and three years as assistant treasurer of New England manufacturing company. Education—high school, business college and university extension work. Salary commensurate with responsibilities.

No. 6A—Specialist in probate accounts—estates, trusts, etc.—would like employment with public accounting firm specializing in these matters. Also has had experience in bank audits. Certified public accountant of Connecticut with twenty years' experience as secretary-treasurer of a private corporation. Has also practised public accounting at various times. Age 57. Prefers New York. Salary subject to arrangement.

No. 13A—Accountant, age 38, with 11 years' public practice with well known firms and on own account and with 5 years' experience as comptroller of a manufacturing company, desires comptrollership of a private corporation or managership of a branch office of a public accounting firm. Member American Institute of Accountants and certified public accountant of New York and New Jersey.

No. 17A—Semi-senior accountant, age 35, high-school graduate, wishes position in New York. Has had 1½ years' experience with public accounting firms and about 13 years as accountant in 3 private corporations.

No. 22A—Semi-senior accountant now in Hawaii wishes position in the United States. Age 30, married. Has had 2 years' experience in public accounting. Has also been cost accountant for agricultural company.



## *Bulletin of American Institute of Accountants*

No. 23A—Senior accountant in Florida wishes position in another state. Age 37, high-school graduate. Six years' experience in public accounting and two years' as privately employed auditor. Salary \$250 a month.

No. 26A—Senior accountant, C. P. A. of South Carolina, with 5 years' public experience, wishes staff position in any city. At present in Florida. Age 34, married. Salary \$3600.

No. 30A—Member, American Institute of Accountants, C. P. A. Minnesota, age 42, with 10 years' public accounting experience, wishes position in Minneapolis, Chicago, or some other city. Recently sold his own practice in order to engage in outside activities. Now wishes to re-enter profession. Married, with dependents. No objection to travel. Salary subject to arrangement.

No. 33A—Senior accountant with eight years' professional experience seeks position in New

York. Age 37. Unmarried. Graduate University of Edinburgh.

No. 34A—Member, American Institute of Accountants, C. P. A. of North Carolina and Incorporated Accountant of England, wishes executive accounting position with public accounting firm or private corporation, preferably in western North Carolina or Tennessee. Age 34, married. Thirteen years' public practice. No objection to travel.

No. 35A—Member, American Institute of Accountants and chartered accountant of Ontario, with 16 years' public accounting experience, is seeking staff position, preferably of supervisory character. Available immediately. Salary subject to arrangement. Now resident near Chicago.

The Institute has not investigated the statements made by these applicants and, therefore, can not assume responsibility for their accuracy.

## HERE AND THERE

Arthur Andersen & Co. announce the opening of a San Francisco office, in the Russ building.

William H. Ball announces the opening of offices in the First National Bank building, Detroit, Michigan.

Harry W. Bundy and John Moran announce the formation of a partnership under the firm name of Bundy & Moran, with offices in the Virginia Dare Hotel building, Elizabeth City, North Carolina.

The firm of Chiene & Tait announces that the name of the firm in Guatemala City has been changed to Layton-Bennett, Chiene & Tait.

H. C. Goettsche & Co. announce the opening of new offices at 100 North LaSalle street, Chicago.

The firm name of Hadfield, Rothwell & Soule has been changed to include that of Charles F. Coates, who has been a general partner since January, 1922. The firm will, therefore, be known in the future as Hadfield, Rothwell, Soule & Coates.

Harry Kahan and Harry D. Seltzer announce the formation of a partnership to be known as Kahan & Seltzer, with offices in the Pacific National Bank building, Ninth and Hill streets, Los Angeles.

F. W. Lafrentz & Co. announce the retirement of A. J. Douglas from membership in the firm. It has also been announced that Thomas A. Williams, who has been admitted to the firm, will be resident partner in New Orleans.

Leslie, Banks & Co. announce that Lee Perkins has been admitted to partnership in the firm, which he will represent at the Boston office, 10 Post Office square.

Price, Waterhouse & Co. announce the opening of an office in the Marine Trust Company building Buffalo, and an office at 22 Marietta street, Atlanta, Georgia.

On September 11th, Myron A. Finke, New York, spoke before a committee of the United States treasury department which is to draft new regulations. His subject was "Consolidated tax returns—accounting theory underlying consolidated and income-tax problems in connection therewith."

# BULLETIN

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## New England Regional Meeting

A regional meeting of the American Institute of Accountants was held at the Hartford club, Hartford, Connecticut, on November 23rd. William Z. White, chairman of the committee in charge of arrangements for the meeting, acted as chairman and introduced Seth Hadfield, president of the Connecticut Society of Certified Public Accountants, who made an address of welcome. Walter E. Batterson, mayor of Hartford, extended a greeting on behalf of the city. Charles B. Couchman delivered an address entitled "Present trend of accountancy." He said that accountants will probably be expected to assume more and more responsibility as time goes on and therefore must establish certain definite standards of procedure to protect themselves. He cited verification of inventories and appraisal of investments as examples of what some clients and bankers wish the accountant to do.

After a buffet luncheon Percy Rothwell, chairman for the afternoon session, introduced Edward F. Hall, commissioner of finance and control of the state of Connecticut, who described the work of his office, and Marshall Mott, manager of the better business bureau of Hartford, who explained the purposes of his organization.

Frederick H. Hurdman, president of the American Institute of Accountants, spoke of the work of various committees of the Institute. A. P. Richardson, secretary of the Institute, described the Institute's history and policy.

At the business session which concluded the afternoon proceedings it was resolved that the next meeting of the region be

held at Boston in May, 1929. Charles F. Rittenhouse was elected chairman of the committee on arrangements, and Percival Brundage and Arthur T. Chase were elected secretary and treasurer, respectively.

A banquet was held in the evening at which there was dancing and entertainment.

Much of the credit for the success of the Hartford meeting is due to officers and members of the Connecticut Society of Certified Public Accountants.

## Earned Income of Accountants

The attention of the executive committee of the Institute has been drawn on several occasions to apparently unjust decisions by the bureau of internal revenue with reference to credits for earned income allowed to accountants in their income-tax returns. In 1927 it was reported that earned-income credit of partners in accountancy firms was limited to twenty per cent. of each partner's share in the net profits, according to the department's interpretation of sec. 209 (a) (1) of the act of 1924. In certain cases the bureau refused to allow accountants earned income in excess of their salaries or drawing accounts.

The Institute contends that income derived by accountants from the practice of their profession with or without assistants should be considered as earned income. Counsel of the American Institute of Accountants has been conferring on the question with counsel for the bureau, and it is believed that an adjustment satisfactory to all concerned will be made.

If any members of the Institute are encountering difficulty in settling this question with the tax authorities, the executive com-

mittee would be glad to learn the details of such cases.

### **Institute Examinations**

More than 500 candidates sat for the examinations of the American Institute of Accountants on November 15th and 16th in the thirty-one states and the one territory which coöperated with the Institute this fall. Some of the states and territories which regularly coöperate did not hold examinations in November.

### **Interest on Investment as Manufacturing Cost**

A debate on the proposition "Resolved, that interest on investment be included as a cost of manufacturing" was held at a joint meeting of the Philadelphia chapters of the Pennsylvania Institute of Certified Public Accountants and the National Association of Cost Accountants, at the Penn athletic club, November 16th.

The debators upholding the affirmative were Arthur T. Cameron, William H. Alden and John Hihn, jr., all representing the cost accountants. Their arguments maintained that there is no material difference between the return on borrowed capital and on owned capital, and therefore interest on investment must be included as a cost of manufacturing if all concerns are to be on a comparable basis. They said further that each dollar of profit is represented by two items—first, interest on invested capital and, second, actual profit. Interest on capital need not be absorbed by income until actually realized, they said. In other words, the amount of interest included in the inventory at any date might be carried as a deferred credit until realized.

The speakers for the negative were all members of the Pennsylvania Institute of Certified Public Accountants—John Balch, Peter Barton and George Wilkinson. They contended that the theory of their opponents is unsound and dangerous and that no good purpose would be served by it. Such procedure as that suggested, it was said, amounts to traveling in a circle, ending at the precise point of departure.

The judges, Robert Riegel, Edward Porter and Robert J. Bennett, unanimously declared the negative team the winner. A

vote of the audience, in which there were more than 200 persons, also showed a majority in favor of the speakers for the negative.

### **John R. Ruckstell Addresses Students in Nevada**

John R. Ruckstell, past president of the American Institute of Accountants, delivered an address on November 21st before students of the department of commerce of the University of Nevada. His subject was the opportunities and objectives in higher accountancy.

Mr. Ruckstell said that as an alternative to a professional career attractive positions with private concerns are open to men who have mastered accountancy. The training received by a student who has qualified for membership in the American Institute of Accountants, or has obtained a C. P. A. certificate, is of great assistance in obtaining private positions of this kind, he said. Need for trained accountants is increasing and has never been greater than at the present time.

Expansions, mergers, new methods of financing and more scientific methods throughout the industrial world, Mr. Ruckstell said, give accountancy and allied subjects a prominent place in the curriculum of a modern university.

### **Henry Rand Hatfield Honored**

An award of merit was presented to Henry Rand Hatfield, dean of the college of commerce, University of California, at a special meeting of the San Francisco chapter of the California State Society of Certified Public Accountants on December 7th. The presentation was made by John F. Forbes on behalf of Beta Alpha Psi, a national professional fraternity in accounting and commerce. The award was presented to Professor Hatfield for the most outstanding contribution to the literature of accountancy during the year ended May 1, 1928—his book entitled *Accounting, Its Principles and Problems*.

Reid L. McClung, dean of business administration, University of Southern California, and members of chapters of Beta Alpha Psi in California were guests at the meeting.

## **Associates Pay Tribute to F. W. Lafrentz**

Officers of the American Surety Company gave a luncheon in honor of F. W. Lafrentz on November 13th in celebration of his thirty-fifth year of association with the company. During this time he has held many offices. At the present time he is chairman of the board.

Mr. Lafrentz is a charter member of the American Institute of Accountants, and a member of the accounting firm of F. W. Lafrentz & Company.

## **William Dolge Tells of Force of Professional Ethics**

In presenting the John F. Forbes medal for excellence in examinations, at a meeting which was mentioned in the November *Bulletin*, William Dolge, of the California State Society of Certified Public Accountants, made the following remarks:

A year or more ago, in expressing our appreciation for the unselfish devotion to the profession of our friend and colleague, John Franklin Forbes, we honored him and ourselves by instituting the John F. Forbes medal. It is my pleasant duty this evening to make the first formal presentation of the Forbes medal and it is therefore altogether fitting to consider briefly the significance of this symbol. For the Forbes medal is a symbol. Its intrinsic worth is nominal, its practical value negligible. It is a material evidence of the value we of the accounting profession attach to the imponderables, the intangibles, the ideals, the moral and spiritual qualities of our life work. It is material evidence that we look upon the practice of accountancy as a profession and not as a business or a trade. We have traveled far to arrive at this goal, which indeed is only a milestone in the progress and development of our great profession.

Were we tradesmen the award for the best examination paper would fittingly be the money value of the medal. Were we business men, competing with one another, striving to hinder or cripple our competitors, striving to gain advantage over them, by fair means if possible, by foul means if necessary, the C. P. A. examination would better be abandoned. The C. P. A. examination is not a competition. It is not an elimination contest, nor indeed a contest of any kind. It is the gateway to the profession of accountancy—a testing of the candidates' qualifications for the profession—open to every citizen of good moral character. The success of one does not defeat or hinder another.

Open to every citizen of good moral character, open to every one that plays fair, who is honest, honorable in his dealings with others. Closed to liars, frauds and cheats, closed to those who have prostituted their talents as accountants by falsifying records, by embezzlement, by preparing

false statements, as it should be closed to those who have no understanding of the ethics of the profession.

Not that the liar, the fraud and the cheat can not come through the gate. Some can and do come in, together with those of highest ideals, but somehow they find, some sooner, some later, that the prostitution of their talents does not bring the material rewards they hoped for. For the rock upon which our profession is built, the foundation upon which the livelihood of everyone of us rests, is the confidence of the client in our honor, integrity and ability. There are probably as many grades of accounting ability as there are certified public accountants in California. Some one is the ablest C. P. A. and some one is the least able, and the rest of us are somewhere in between. But if we are honorable and of unimpeachable integrity we can and will render the client the honest service to which he is entitled and will frankly admit our technical inability to serve, calling upon our abler colleagues for assistance when that becomes necessary.

Now this rock of honor, integrity and ability is sometimes undermined by those who come in the gateway by mistake, by those who think accountancy is a trade or business. They have the competitive idea, the impersonal service idea, the "charge-all-the-traffic-will-bear" idea of our work. They are in favor of closing the profession, closing the gateway, making it harder to get in, establishing a monopoly of accounting service, and it follows that they see no wrong in offering their services to your clients for less than you charge, see no wrong in offering more dollars in compensation than you are paying to the staff you are educating and training. These are our unethical colleagues, sincere enough perhaps, but none the less mistakenly undermining the very foundation of our profession and of their own material progress, because client and staff obtained in this manner "don't stay bought." They who live by the sword shall die by the sword.

I know of no way of enforcing ethical conduct. I do know the force of good example. Our beloved Dr. Hatfield set a high example many years ago in his scholarly *Modern Accounting* and thus influenced the great flood of accounting literature which followed that epoch-making treatise. The high ideals of professional ethics and etiquette of George Webster, our first president, of Norman McLaren, and Percy Goode, his partner, of Lester Herrick, of A. W. Wenzelburger, of C. P. Carruthers, of John F. Forbes, of John R. Ruckstell have given the profession of accountancy in California its present high standing, have made the C. P. A. certificate, have made the Forbes medal possible.

Preston Leslie Shobe, stand up. In the name of the California State Society of Certified Public Accountants I have the honor to confer upon you the John F. Forbes medal for the distinguished merit of presenting the best C. P. A. paper during the year 1927-1928. With this medal accept also our good wishes. We know that you cherish the traditions of the profession, as we know that you and your colleagues will aid in building firmer and deeper the foundations on which our profession rests—professional ethics of the highest type.

## **Annual Meeting of American Association of University Instructors in Accounting**

The American Association of University Instructors in Accounting will hold its thirteenth annual meeting at the Hotel Stevens, Chicago, December 27 and 28, 1928. All sessions on the programme except the banquet will be open to the general public. The following is the programme which has been arranged:

### **Morning session—December 27th.**

(Meeting called to order, 10:00 a.m.)

Topic: Accountancy in European countries.

"Cost accounting; its present status in Great Britain." Howard S. Noble, University of California at Los Angeles.

"Some observations on accounting in France and Germany." H. H. Baily, University of Illinois.

"Present-day basis for accounting in Italy." George E. Frazer.

### **Afternoon session—December 27th.**

(Meeting called to order, 2:00 p.m.)

Topic: Theory and practice.

"Some divergencies of accounting theory from economic theory." John B. Canning, Stanford University.

"Realized income." E. E. A. Heilman, University of Minnesota.

"The changing objectives of accounting." H. C. Daines, University of Chicago.

"Financial and industrial investigations." Arthur Andersen.

"Appreciation in its various aspects." John R. Wildman.

### **Annual banquet—December 27th, 7:00 p.m.**

Presidential address, reports of officers and committees, and general discussion of association activities. (Open to members only.)

### **Morning session—December 28th.**

(Meeting called to order, 10:00 a.m.)

Joint session with American Association of Collegiate Schools of Business.

Topic: "To what extent shall accounting instructors indulge in outside practice?"

Paper: James O. McKinsey, The University of Chicago.

Paper: Charles L. Raper, Syracuse University.

Discussion: W. R. Gray, Dartmouth College.

### **Afternoon session—December 28th.**

(Meeting called to order, 2:00 p.m.)

Topic: Policy and administration.

"Business policy as related to accounting."

Chester F. Lay, University of Texas.

"Methods and advantages of early closing."

J. B. Heckert, Ohio State University.

"The administrative uses of differential costs."

T. H. Sanders, Harvard University.

Election of officers, unfinished business, etc.

## **Life-insurance Premiums**

There is considerable lack of uniformity among accountants in the methods of handling insurance premiums on the lives of officers of corporations where the company is the beneficiary, according to a statement by Urban S. Greene, a member of the American Institute of Accountants. He offers a method of procedure which he considers better than the one commonly used. Mr. Greene's statement is as follows:

The question of the method of handling insurance premiums on the lives of officers of corporations where the company is the beneficiary is one on which there is a considerable lack of uniformity among accountants. Most policies for a term of years provide that at the end of three, and sometimes two years, there shall begin to accrue a cash surrender value or a loan value at certain rates which are specified in the policy. This value increases each year to certain predetermined amounts which are stated in the policy. The amount of the first loan value or cash surrender value which definitely accrues at the end of the third year is in a number of cases approximately equal to the total amount of premium paid on the policy for that year.

Perhaps the most common method of handling the insurance premiums is to charge the full amount of the premiums as an expense during the year for which it was paid, except that when a cash surrender value begins to accrue it is credited to the premium-expense account and charged to a cash-surrender-value account, and the balance of the premium account, if any, is charged as an expense.

For purposes of illustration assume a case where a premium of \$10,000 per annum is paid for insurance on the life of an officer of a corporation, with no provision for participating dividends to reduce the premiums for subsequent years. During the third year of the policy, the premium of \$10,000 is paid, and at the end of that year there accrues a cash surrender value in the amount of \$9,900. Under the method outlined above the \$10,000 premium paid during each of the first two years would be charged off as an expense, and at the end of the third year a charge would be made to an account for cash surrender value for the \$9,900 and the same amount would be credited to premium-expense account, leaving a balance of \$100 which would be treated as the amount of the expense for the year. Assume that at the end of the fourth year the cash surrender value increased by the amount of \$2,200, with somewhat similar increases at the end of each subsequent year during the life of the policy. Under the method indicated premium-expense account would be credited at the end of the fourth year for \$2,200 and cash surrender value would be increased by that amount, leaving a balance in the premium-expense account of \$7,800, which would be written off as an expense.

It is readily apparent from the facts of this hypothetical case that this method of handling the insurance premiums is not logical and is in some respects incorrect. It impairs the value of comparative statements because of obvious inaccuracies and

the fact that the items are not uniformly treated or logically reflected, since the premium-expense account for each of the first two years would be \$10,000, for the third year \$100, and for the fourth year \$7,800.

A better way to treat these items would be to pro-rate the amount of the cash surrender value which definitely accrues at the end of the third year, \$9,900, credit one-third of this amount, \$3,300, to premium-expense account during each of the first two years and charge this to an account for deferred life-insurance premiums or some similar account, and charge the balance of \$6,600 to expense for each of the first two years of the life of the policy. At the end of the third year, the amount of \$9,900 would then be charged to an account for cash surrender value of life insurance and the account for deferred life-insurance premiums totaling \$6,600 would be credited, while the amount of \$3,300 would be credited to premium-expense account. This would reflect the facts with substantial accuracy and the expense would be on a fairly accurate comparative basis. The method of pro-rating the first actual accrual of cash surrender value equally over the first three years is of course not precisely accurate; but it is sufficiently accurate for practical purposes, and will permit the preparation of operating statements on a reasonably consistent comparative basis.

An alternative to the last suggested method would be to omit the account for deferred life-insurance premiums for the first two years, but at the end of the third year credit the amount of \$6,600, which would have been accrued if such an account had been kept, to the surplus direct and merely credit the amount of \$3,300 to premium-expense account. If one is inclined to be ultra conservative this last variation would perhaps be more acceptable. But it seems apparent that either of these two suggested methods of handling insurance premiums is more accurate, more consistent and more logical than the first method stated above, which seems to be the one commonly encountered.

### **Governmental Views of Inventory Valuation**

"Cost or market, whichever is lower" is not an invariable rule for inventory valuation under the regulations of the bureau of internal revenue, according to C. R. Maxwell of the audit review division. Mr. Maxwell has written an article on the subject which appears in *Internal-revenue News* for October, 1928.

He says that the bureau does not permit valuation below cost of the following kinds of items, even though market prices at date of inventory are lower than cost:

1. Goods held for delivery on firm sales contracts.
2. Supplies not used in productive processes.
3. Goods which are not salable at normal prices.

If goods held for delivery, at a profit, on firm sales contracts were valued at a market price lower than cost, true income would not be shown, Mr. Maxwell says. If goods covered by contracts were carried at cost, distortion would not occur. The owner of the merchandise is protected by the contracts against losses from market reductions.

Supplies are ordinarily regarded as prepaid expenses, Mr. Maxwell continues, and the dividing line between supplies and raw materials is not sharply defined. Factory supplies which do not enter productive processes may not be valued at market prices, according to decisions of the board of tax appeals.

Goods not salable at normal prices include shopworn, out-of-style or damaged goods, or samples, and no provision is made in the regulations for their valuation at market price. Nor does the authorized method of valuation provide a normal profit in their subsequent disposition. They may be valued below cost, however, if offered for sale below that value and, in addition, may be reduced below the offering price by the amount of estimated selling expenses.

Generally, Mr. Maxwell says, the use of the basis of cost or market, whichever is lower, is acceptable to the bureau only where its use clearly reflects income for any given year.

### **Accountants Club of America**

At the annual meeting of the Accountants Club of America held at its headquarters in the Hotel Belmont, New York, on November 19th, the following officers were re-elected: President, Robert H. Montgomery; vice-president, Arthur H. Carter; second vice-president, Frederick G. Colley; treasurer, Samuel D. Leidesdorf; secretary, James F. Hughes. The following were elected members of the board of governors: R. H. Montgomery, P. W. R. Glover, Robert E. Connolly, Henry A. Horne, S. C. McLeod, J. T. Madden, Andrew Stewart and Daniel A. Young.

### **Annual Meeting, Taylor Society**

The Taylor Society, an organization to promote scientific administration and management, held its annual meeting at Rumford Hall, New York, December 5th to 8th. The addresses dealt with application of engineer-

ing to management, marketing problems, cost accounting, the relationship of workers and managers, choice of junior executives and the question of shorter working hours.

### **Trade-practice Conferences**

Within the past six months eleven trade associations have met with the federal trade commission in trade-practice conferences. Among the matters discussed were the elimination of commercial bribery and the enforcement of rules relative to grades and standards approved by an industry in cooperation with the simplified practice division of the department of commerce.

A statement of the Chamber of Commerce of the United States says that the scope of trade-practice conferences, with reference to the number of subjects and the degree of enforcement of approved resolutions, has materially increased recently. The federal trade commission has announced that clandestine violation of any rule which an industry has adopted constitutes an unfair method of competition, and at the request of an industry it will undertake to proceed against any violator of the rules of that industry.

### **New Accountancy Magazine in Cuba**

The publication of a monthly magazine entitled *Contabilidad y Finanzas* has recently been undertaken by a corporation called Empresa Editora Contabilidad y Finanzas, S. A., founded by students of the high school of commerce, University of Havana, Cuba. Its editor, Juan P. Bombino Matienzo, is of the opinion that it is unique among magazines in the Spanish language, dealing with matters of accounting, auditing, economics and finance.

In format the magazine is similar to *The Journal of Accountancy*. Cuban interest in American affairs is illustrated in the December, 1928, issue of the new magazine, by translation of quotations from American authors on accountancy.

### **Hotel Executive to Deal with Accounting Problems**

Announcement has been made that F. A. McKowne, president of the Hotels Statler Company, Inc., has been appointed chairman of the accounting system committee of the Hotel Association of New York. The chairmanship of this committee was formerly held by the late E. M. Statler.

### **Indorses "Valuation Ledger"**

*The American Contractor* for October 13, 1928, contains an article entitled "What should be given in the balance-sheet?" by Arthur J. Peel. The author suggests that an auxiliary record, known perhaps as a "valuation ledger," should be maintained to reflect values not shown in regular double-entry accounts.

As examples of values that might be included in such a record, the article cites assets which have been wholly written off the books by depreciation but still have a real value, such as a motor truck which might be turned in at a considerable figure when a new truck is purchased. The author also refers to goodwill which has not been acquired by purchase but has been gradually developed and to such intangible values as the increased desirability of a building whose windows happen to give a pleasing view. The usual balance-sheet, he says, does not give effect to these values.

## **STATE BOARDS OF ACCOUNTANCY**

### **Georgia**

The certified public accountant examinations of the state of Georgia were held at Atlanta on November 23rd and 24th.

### **Maryland**

The certified public accountant examinations of Maryland were held at the Mary-

land Institute, Baltimore, November 26th, 27th and 28th.

### **Virginia**

Certified public accountant examinations were conducted by the Virginia state board of accountancy November 26-29, 1928.

Approximately 75 candidates sat for the examination.

## STATE LEGISLATION

The legislatures of forty-seven states and territories will be in regular session in 1929, and according to present indications accountancy bills will come up for consideration in many of them. It has already been announced that state societies of accountants in Iowa, Ohio, Oklahoma, Oregon, New York and Texas may propose bills to change the method of regulating the accountancy profession. There have as yet been no reports of any undesirable legislation which may be proposed, but it is expected in the light of the experience of recent years that several attempts will be made to lower the standards which now exist.

According to informal reports and rumors it seems unlikely at present that any attempt will be made to amend the federal tax laws during the present short session of congress.

The following state legislatures will convene in the month of January: Arizona,

Arkansas, California, Colorado, Connecticut, Delaware, Idaho, Illinois, Indiana, Iowa, Kansas, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Washington, West Virginia, Wisconsin, Wyoming.

The following legislatures will convene in February: Hawaii and Porto Rico. The legislature of Alaska will convene in March, that of Florida in April and that of Georgia in June. The legislature of the Philippine Islands will meet in July.

Kentucky, Louisiana, Mississippi and Virginia will not hold regular legislative sessions in 1929, but special sessions may be called by the governors of those states.

## NEWS OF LOCAL SOCIETIES

### Florida Institute of Accountants

A two-day meeting of the Florida Institute of Accountants was opened at the Tampa Terraces hotel, Tampa, on December 14th. There was a large representation of members from all parts of the state. Discussion of technical subjects occupied a part of the sessions.

The American Institute of Accountants was represented by A. P. Richardson, secretary of the Institute, who delivered an address.

### Illinois Society Publishes Year-book

The year-book of the Illinois Society of Certified Public Accountants for 1928-1929 has recently been published. The book contains among other things a list of officers, directors, committees, the constitution and by-laws of the society, and the C. P. A. law and public accountant law of the state of Illinois.

### Bulletin Published by Indiana Association

"What an accounting system should tell" is the title of a bulletin published by the

public-affairs committee of the Indiana Association of Certified Public Accountants, November 19, 1928. The bulletin points out the danger inherent in a merely superficial knowledge of the financial condition of a concern on the part of its executives. The proprietor who knows simply that the cash in his possession bears a certain relation to that which he owned the year before may draw many incorrect conclusions. The system of accounts should tell everything about the business it records—not only the financial condition at a given date, but the history of operations, which will enable the owner to pursue an intelligent plan of action for the purpose of correcting apparent ills or increasing lines of endeavor disclosed as profitable.

The bulletin contains the names of members of the Indiana Association. Copies have been distributed to bankers and business men in the state.

### Louisiana Society Elects Officers

The following are the names of the new officers of the Society of Louisiana Certified Public Accountants who were elected at an adjourned annual meeting of the society on



November 8th: Charles L. Seeman, president, L. E. Schenck, vice-president, George A. Treadwell, secretary, and John F. Hartmann, treasurer.

In addition to the officers the following are members of the executive board: Lanaux Rareshide, R. C. Lloyd and Darby Sere.

### **New Officers of Maine Society**

Richard Millett was elected president of the Maine Society of Certified Public Accountants at its annual meeting at Portland on November 24th. Horace A. Little was elected vice-president, and Ellen Libby Eastman, secretary and treasurer.

### **Meeting of Maryland Accountants**

The third annual joint meeting of three societies of accountants of Maryland was held at the Emerson hotel, Baltimore, December 11th. The societies represented are the Maryland Society of Certified Public Accountants, the Baltimore chapter of the National Association of Cost Accountants and the Maryland Association of Public Accountants. After the dinner, which began at 6:30 p.m., Frederick H. Hurdman, president of American Institute of Accountants and Frank L. Sweetser, president of the National Association of Cost Accountants, addressed the meeting.

The programme was concluded with music and entertainment.

### **Earned Surplus Discussed by Massachusetts Society**

At a meeting of the Massachusetts Society of Certified Public Accountants on November 26th various questions relating to earned surplus were discussed. A questionnaire drawing attention to specific points had been distributed to the membership prior to the meeting and these questions were taken up seriatim.

The following committees of the Massachusetts society have been appointed for the year 1928-1929:

#### **Meetings:**

James Willing, *chairman*  
Charles F. Rittenhouse  
George S. Clarkson

#### **Legislation:**

J. Chester Crandell, *chairman*  
Stanley G. H. Fitch  
D. B. Lewis

#### **Publicity:**

Clifton W. Gregg, *chairman*  
Harold A. Mock  
Ralph S. Perkins

#### **Education:**

Percival F. Brundage, *chairman*  
Atlee L. Percy  
Herbert E. Tucker

#### **Membership:**

Henry W. Robbins, *chairman*  
Raymond D. Willard  
Harvard L. Mann

#### **By-laws:**

Walter L. Boyden, *chairman*  
Arthur L. Risley  
George L. Bishop

### **Minnesota Society of Certified Public Accountants**

A regular monthly meeting of the Minnesota Society of Certified Public Accountants was held at the Minnesota club, Minneapolis, on November 22nd.

Homer S. Pace delivered an address entitled "The future of public accountancy practice."

### **Mississippi Society Elects Officers**

At the ninth annual meeting of the Mississippi Society of Certified Public Accountants held at the Edwards hotel, Jackson, October 27th, the following officers were elected: Joel Acker Rogers, president; Nelson E. Taylor, vice-president; Duncan L. Thompson, secretary, and Glenn M. Goodman, treasurer.

### **Missouri Society of Certified Public Accountants**

The following committees of the Missouri Society of Certified Public Accountants have been appointed for the year 1928-1929.

#### **STANDING COMMITTEES**

##### **Admissions:**

A. J. Benner, *chairman*  
F. R. Brodie  
G. V. Keller

##### **Legislation:**

E. H. Wagner, *chairman*  
Edward Fraser  
J. H. O'Connell

##### **Complaints:**

E. G. H. Kessler, *chairman*  
E. M. Lynn  
Jeff K. Stone

**SPECIAL COMMITTEES**

***Pamphlet:***

W. Mayors, *chairman*  
E. H. Wagner  
P. J. Barnes  
F. M. Weaver  
E. S. Williams

***State board matters:***

A. J. Saxer, *chairman*  
W. E. Baird  
T. F. Leonard  
H. L. Oppenheimer

***Education:***

J. J. Lang, *chairman*  
O. M. Cartall  
J. W. Snider  
T. C. Hansen  
E. Boyd

***State income-tax returns:***

W. F. Scott, *chairman*  
S. S. Cohen

**ST. LOUIS CHAPTER**

"The retail method of inventories" was a subject of discussion at the monthly meeting of the St. Louis chapter held at the Mayfair hotel on November 14th. J. P. Friedman read a paper on the subject and at the conclusion of his address he answered questions asked by members of the audience. About seventy members of the chapter and guests were present.

**All-day Meeting of New Jersey Society**

Building and loan associations, accountants' reports, and problems related to corporation securities were the principal subjects of discussion at an all-day meeting of the Society of Certified Public Accountants of the State of New Jersey, November 21, 1928.

In the absence of Maurice E. Peloubet, president of the society, Henry B. Fernald acted as chairman. In the afternoon session the first speaker was James H. McNish, deputy commissioner of the department of banking and insurance of the state of New Jersey. Mr. McNish traced the growth of building and loan associations and explained their relationship to the communities which they serve. He declared that such an association is primarily and basically a neighborhood affair, and one of its strongest supports is the confidence of the community in which it exists.

Following the address by Mr. McNish, three members of the society discussed technical accounting problems of building and loan associations. James F. Hughes spoke on verification of assets, Julius E.

Flink, secretary of the society, spoke on verification of liabilities, and Abraham H. Puder on preparation of the report.

William H. Bell was the next speaker and his subject was "Accountants' reports." He drew attention to the necessity of understanding the purpose for which a report is intended, whether for the use of the clients themselves in administration of their affairs, for submission to banks or credit agencies as a basis for loans, or for the examination of buyers or sellers of the business which has been investigated. While in all cases the report should tell only the truth, Mr. Bell said, the manner of its preparation in the light of its ultimate use may make it of greater or less value for the purpose for which it is intended. Mr. Bell favored a definite certificate by the accountant with specific qualifications, if any are necessary, but he recommended that the accounts be adjusted so far as possible to minimize the number of qualifications in the certificate. Mr. Bell gave as a principle which the report writer might well bear in mind the following statement: "Reports are only as valuable as they are interesting."

The banker's attitude toward an accountant's report was next discussed by Spencer S. Marsh, vice-president of the National Newark and Essex Banking Company. Mr. Marsh said that it was a relatively recent custom for banks to insist on financial statements of clients seeking credit, but he expressed hearty approval of it, and offered the opinion that it would become more and more a common practice. He emphasized the necessity from the bankers' point of view of regarding a financial statement of a concern in the light of the firm's possible liquidation. For the benefit of the accountants in the audience Mr. Marsh reviewed step by step the procedure of the banks in analyzing accountants' reports and statements.

More than 200 members and guests were present at the dinner. Mr. Fernald, acting as toastmaster, introduced past presidents and other officers of the New Jersey society, as well as the guests of the evening, among whom was Frederick H. Hurdman, president of the American Institute of Accountants. Mr. Hurdman spoke briefly of the advantages of membership in national and local professional organizations and extended an

invitation to the members of the New Jersey society to avail themselves of facilities of the American Institute of Accountants.

Percy S. Young, vice-president of the Public Service Corporation of New Jersey, touched on various functions of accountancy in relation to the affairs of the business executive. No profession, he said, can do more than the public accountant to aid the solution of the business firm's problems. Mr. Young said that if he were to advise a business firm on matters of policy, one of his principal suggestions would be that the accountants be taken into complete confidence and their advice be sought on all difficult questions.

Problems of corporate existence and operation were discussed by D. Frederick Burnett, professor of law, New York University. He said that these problems concern both lawyers and accountants. He drew attention to fraudulent devices which may be introduced in the issuance of corporate securities. There are remedies for such evils, he said, in courts of equity and in statutory control, but largely the public must look to public accountants for protection. Before stocks can be manipulated, he said, there must be a market for them. The accountant is partly responsible for that market, or the lack of it, because his certification, or refusal of certification, to the accounts of the corporation when its securities are first offered for sale, affects the attitude of bankers and the public toward the corporation's general integrity.

At the meeting it was announced that the year-book of the New Jersey society had recently been published and distributed to members. The book contains a list of members, officers and committees, as well as reports for the past fiscal year. The secretary's report shows that on April 30, 1928, there were 229 members. In the president's report there is mention of revision of the constitution of the organization and probable adoption of a code of professional ethics in the near future.

The following are the officers of the society: Maurice E. Peloubet, president, Henry B. Fernald, first vice-president, Philip S. Suffern, second vice-president, Julius E. Flink, secretary, and Morris J. Hoenig, treasurer.

The committees are as follows:

STANDING COMMITTEES

*Legislation:*

Henry B. Fernald, *chairman*  
William H. Compton  
John B. Niven  
William Surosky

*Ethics:*

W. Melville Coursen, *chairman*  
W. Sanders Davies  
William C. Heaton  
Charles E. Mather  
Henry S. Puder

*Membership:*

Theodore Krohn, *chairman*  
William C. Heaton  
Robert Caruba

*Public relations:*

Paul K. Owen, *chairman*  
Morris J. Hoenig  
Fred L. Main

SPECIAL COMMITTEES

*Lecture and entertainments:*

W. Homer Conkling, *chairman*  
Richard H. Browne  
John A. Conklin  
Walter A. Staub  
Abraham H. Puder  
W. Melville Coursen

*Inter-state relations with other accounting organizations:*

Philip Suffern, *chairman*  
James F. Hughes  
George Rea  
Walter Staub

*Year-book:*

George Rea, *chairman*  
W. Sanders Davies  
James F. Welch  
James J. Hastings  
Julius E. Flink

*International congress on accounting:*

John B. Niven, *chairman*  
Charles E. Mather  
Julius E. Flink

**New York Society Works on  
C. P. A. Bill**

At a meeting of the New York State Society of Certified Public Accountants in New York, November 26th, the entire evening was devoted to discussion of a proposed C. P. A. bill, prepared with the sanction of the legislation committee. The chief provisions of the original bill were mentioned in the November *Bulletin*.

After lengthy discussion it was decided that the committee make such amendments as appeared desirable in the light of criticisms offered and submit a final draft at another meeting, called for December 10th. At that meeting the draft, with amendments, was approved.

## **North Carolina Association of Certified Public Accountants**

Following a conference of officers of the North Carolina Association of Certified Public Accountants held at Charlotte on December 2nd, announcement was made that the 1929 convention of the association would be held at Wrightsville Beach, June 24th to 26th.

At the same time William H. Zimmerman, president of the association, announced the appointment of the following committees for the current year:

### *Membership:*

F. O'C. Fletcher  
S. H. Wiley  
H. F. Blackwell

### *Legislation:*

George H. Adams  
D. H. McCollough  
Charles E. Elberson

### *Publicity and education:*

Frederick Moore  
W. E. Stevens  
M. W. MacRae

### *Meetings:*

W. C. Nichols  
Robert C. Carter  
Neal S. Ziegler

### *Public affairs:*

D. R. Hollowell  
H. G. Brubaker  
J. Irving Mason

### *Arbitration:*

Walter Charnley  
John B. Rodgers  
John Eck

### *Natural business year:*

John E. Wilson  
K. E. Thies  
C. F. Delamar

### *International congress:*

George E. Wood  
Charles H. Goodno  
J. B. McCabe

### *Professional educational contact:*

E. E. Peacock  
Rosell W. Hemminger  
Frank Lee Jackson  
J. H. Shields

## **Annual Meeting, Oklahoma Society**

The Oklahoma Society of Certified Public Accountants held its annual meeting on November 2nd at Oklahoma City. Accountants from all parts of the state were present and the entire session was devoted

to business matters. The following officers were elected: W. I. Nicholson, jr., president; Ross T. Warner, secretary, and M. C. Fox, treasurer.

Following the meeting an informal dinner was given by the Oklahoma City chapter of the society.

## **Pennsylvania Institute of Certified Public Accountants**

### **PITTSBURGH CHAPTER**

Frank C. Harper was the principal speaker at a meeting of the Pittsburgh chapter of the Pennsylvania Institute of Certified Public Accountants, at the Hotel Henry, December 6th.

## **Annual Meeting of Texas Society**

Publicity, arbitration and legislation were the principal topics considered at the annual meeting of the Texas Society held at San Antonio, November 30th and December 1st. The meeting was held in conjunction with the Texas Association of University Instructors in Accounting. The following officers were elected for the ensuing year: J. R. Nelson, president; W. M. Wittman, vice-president, and E. R. Burnett, secretary-treasurer.

## **New Officers of Wisconsin Society**

The following officers were elected by the Wisconsin Society of Certified Public Accountants at its annual meeting October 29th: George Einbecker, president; J. Currie Gibson, vice-president, and Clarence H. Benton, secretary-treasurer.

## **Fresno Association of Certified Public Accountants**

C. Edwin Oyster and George W. Sims have been elected president and secretary-treasurer, respectively, of the Fresno Association of Certified Public Accountants.

In addition to the officers, C. E. Bradford is a member of the executive committee.

At the regular meeting of the association on November 8th at the California hotel, Arthur M. Flynn read a paper entitled "Inventory valuation" which was followed by general discussion.

## REVIEWS

### WILLIAM D. BONTHRON—"INVENTORY PLANNING, TAKING AND VALUATION"

A paper read at a meeting of the Detroit chapter, National Association of Cost Accountants.

"Nothing in the whole field of accounting illustrates more admirably the breadth of the accounting field or the philosophy of accounting than the inventory," said Mr. Bonthron, in opening his address.

Inventories usually constitute a most important factor in determination of profit and loss and they are now generally determined throughout the year instead of being ascertained only by physical measurement at the end of the year, he continued. Consequently financial results of operations are determinable monthly instead of annually as was once the case. The use of an unnatural fiscal year was referred to by the speaker at this point. In most lines of business there is a time when inventories are at a minimum and that is the logical time to close the business for the year and sum up the results. When inventories are low liabilities also should be at the low point, he said. Economy in taking inventory would be increased and a greater degree of accuracy would be possible if a natural fiscal year were used.

The annual listing and valuing of stock, while different in various business, has been standardized to a certain extent. It usually involves considerable expense not only because of direct cost of stock-taking but particularly because of the interruption of production. The expense of inventory is, however, a necessary one.

Proper planning may eliminate the considerable expense of re-checks necessitated by error or confusion. First it must be decided who will be in charge of the inventory as a whole. Usually the comptroller, chief cost accountant, purchasing agent and division managers and department heads form the nucleus of the inventory organization, assisted by superintendents, foremen and other subordinates. The period in which operations should be suspended in the different departments is the next problem demanding attention. Suspension of operations greatly expedites inventory taking.

A statement of inventory instructions should be prepared and copies distributed among the personnel so that the workers may become familiar with the procedure before commencing their duties. Group meetings are sometimes held before the start of the inventory to clarify the duties of each assistant. The instructions generally include time allotted for various stages of the work, a list of the personnel engaged in it, a list of the classes of products, materials and supplies to be inventoried, description of tags and forms to be used, etc.

The speaker elaborated in detail each of these features of the inventory plan showing what type of description should be included in the list of articles to be inventoried, the kind of tags which may be used for various purposes and other matters. He also described the preparatory instructions given to the different departments before the inventory is taken. Mr. Bonthron then outlined plainly the

method of taking inventory of finished goods, work in progress, raw material and goods on consignment.

He emphasized the significance of inventory valuation in the balance-sheet of a company. Overvaluation of plant, land or other fixed assets is important, he said, but a similar overvaluation of inventory, besides misrepresenting the balance-sheet, misrepresents also the profits from operations, which is a far more serious thing. Assets, Mr. Bonthron continued, are a tool. The profits are the prime purpose of the company's existence. If a paper profit be indicated by inflated values of plant and fixed assets it is, despite whatever evil effect it may have, at least a non-recurring profit—not a precedent. It can not be repeated indefinitely. But overvaluation of inventory, the speaker said, results in an apparent direct increase of operating profit and promises higher profits indefinitely.

Bankers, realizing the danger of inventory overvaluation, sometimes attempt to fix responsibility for values on the auditors, Mr. Bonthron said. He showed why accountants as a rule do not wish to assume such responsibility, which requires knowledge and ability outside the limits of their professional training.

The speaker next gave attention to the theory of cost or market, whichever is lower. While admitting that the theory might be illogical, Mr. Bonthron emphasized the necessity of giving figures for inventories which will show profit, past and present, in such a way as to do justice to each period and leave the inventory in such a condition as to do no wrong to the future. The true test of valuation from the point of view of the profit-and-loss account is, he said, embodied in this question: "If the inventory were wiped out, would you be willing to pay the amount at which you value it to replace it exactly as it is?" If the answer is "No" a value is carried for inventory which will burden the future. If, on the other hand, the owner has an inventory that he would be willing to purchase at a higher price than the cost value, he would be anticipating profit if he took up the value in excess of cost—an entirely unsound practice, the speaker indicated. Mr. Bonthron then cited instances and conditions in which valuation of inventories must be excepted from the general rule of cost or market. The difficulties in making proper allowance for goods deteriorated in condition, out of style or overstocked were also mentioned.

The speaker then told to what extent an accountant can verify inventories and value them. The first step is investigation of the cost system and inventory records. If these are satisfactory it is almost impossible to deceive the accountant as to quantity or cost. While deception is theoretically possible it would require so great a degree of collusion and such faultless manipulation of accounts that the chances of fraud, in a good cost system properly coordinated with the general books, are almost negligible.

The accountant should not actually measure or count material except in very unusual cases, Mr. Bonthron said. Even if he should do so the result would not necessarily be conclusive. The question of ownership and manner in which goods were acquired is of great importance, and this is better

shown by the books than by physical inspection. Book inventories supported by physical examinations made by the owning company, with an accompanying test of book entries, may be accepted without fear.

The speaker concluded his address by mentioning details with reference to valuation of various types of goods.

**EDWARD C. ROMINE—"OVERHEAD EXPENSES"**

Address delivered before the Hotel Executives club, New York, November 20, 1928.

In the *Uniform System of Accounts for Hotels* prepared by the Hotel Accountants Association of New York, overhead expenses, or expenses not directly incurred for the benefit of any one sales department, are grouped under the following classifications:

- Repairs
- Heat, light, power and refrigeration
- General and administrative expenses
- Rent, taxes, interest, depreciation, etc.

Every hotel executive should know the meaning and, roughly, the amounts of these respective classes of overhead expenses in the average hotel, according to Mr. Romine. The cost of all repairs should be charged to one general overhead account and no attempt should be made to apportion the expense to rooms, restaurant, etc. While larger hotels might departmentalize the cost of repairs and other overhead expenses, smaller enterprises could not follow their example and the uniformity of reports in the industry would be destroyed. Promoters, the speaker said, habitually fail to include proper provision for repairs in their prospectuses—an omission of one of the hotel's biggest problems, inasmuch as the cost of repairs increases with the age of the hotel, while the average sales per room are concurrently declining. By proper initial construction and careful operating management the cost of repairs can and should be controlled. Failure to provide sufficient reserve for depreciation during the early life of a hotel frequently results in an excessive charge to operations during its later life under the name of repairs. Many hotel men, Mr. Romine continued, are deceived in thinking they are making profits when they are unwittingly not providing adequately for the ultimate replacement of fixed assets whose useful life is growing less day by day.

The speaker next mentioned the problem of the source of steam and electricity in a hotel. If power and light can be purchased at reasonable rates, especially in places where space and labor are expensive, the speaker favored purchase of steam and electricity from public-utility companies. The careful metering under this procedure has an additional advantage in that it is apt to stimulate economy. If a hotel has its own power plant there is a greater tendency toward waste. Heat, light, power and refrigeration cost almost one half as much as all direct room expenses together.

The speaker said hotel executives should insist that statistics of electric, steam and water con-

sumption be available regularly so that saving may be effected wherever possible.

Managerial salaries and advertising are the largest of the items placed under the heading "General expenses." Carelessness in avoiding expensive outlays for management and advertising may raise the cost of general expenses per room per day to an exceedingly high average.

Rent, taxes, interest and depreciation are a dangerous stumbling block to success, stated the speaker. The total of this group constitutes generally at least 50 per cent. of the total operating cost of a room. Rent is largely dependent on the maximum figure which the operator may pay and still make a profit and the minimum which the owner must ask to cover interest on his investment and eventually recover the investment itself. Many owners are forced to accept less than they are justly entitled to receive. Due to competitive conditions in the hotel field many owners must content themselves with a rental sufficient to cover interest and amortization on borrowed money, forfeiting the interest on their own capital. Losses from restaurant and telephone often neutralize income from all other sources except rooms and in such cases room sales must cover not only direct room expenses but all other overhead expenses. A rough gauge of the amount of rent that the operator may pay is 50 per cent. of the room sales for rent, taxes, interest and depreciation combined. The danger in estimating on this basis is that the room sales may be estimated too high. Before the amount of rental is determined, the executive should undertake a thorough survey and study an estimated detailed operating budget.

**FREDERICK A. TILTON—"WHAT CAN THE PUBLIC ACCOUNTANT DO FOR YOU?"**

Address delivered over station WJR, Detroit, Michigan, November 27th, as part of the Union Trust Company radio series.

The public accountant occupies an important place in the machinery of commerce and industry, Mr. Tilton told his radio audience. He distinguished between the public and the private accountant and outlined the functions of the former as including audits, preparation of reports and certificates, installation of accounting systems, special investigations and preparation of tax returns, representation of taxpayers before tax courts and service as expert witness.

The speaker drew attention to the antiquity of the science of accountancy, although he admitted that as a legally recognized profession in this country it is the youngest of all. He said that with few exceptions businesses of considerable size, as well as many small concerns, regularly avail themselves of the services of certified public accountants. Emphasis was laid on the value of the independent auditor's certificate and statements of accounts to concerns which offer securities for sale. The federal reserve bank and member banks encourage the independent audit of firms asking loans and discounts, Mr. Tilton said. He mentioned with particular emphasis the importance of budgets in business operation and the necessity of periodical audit of all public funds.

## OBITUARY

### Stuart S. Barnard

On October 21st Stuart S. Barnard, a member of the American Institute of Accountants, was killed in an accident. He was a certified public accountant of California and had been a member of the American Association of Public Accountants prior to the formation of the Institute. At the time of his death he was in practice on his own account in San Francisco.

### Robert H. Dillingham

Robert H. Dillingham, a member of the American Institute of Accountants and formerly of the American Association of Public Accountants, the Institute's prede-

cessor, died on November 12th. He was a certified public accountant of New York and a member of the firm of Bowers & Dillingham, New York.

### James F. White

James F. White, a charter member of the American Institute of Accountants and a certified public accountant of New York, died suddenly on November 17th. He was fifty years of age.

Mr. White served during the war in a government bureau in Detroit and since that time had been a colonel in the United States reserve forces. He was a member of the firm of James F. White & Co.

## EMPLOYMENT EXCHANGE

Members of the Institute are requested to advise unemployed staff accountants who may come to their notice to communicate with the employment exchange. In the past month the demand for assistants has exceeded the supply. A large number of registrants is to be desired. If many applicants are available, firms will use the exchange with increasing frequency.

The exchange can not offer much encouragement to accountants who are seeking positions with private corporations. The Institute is a professional organization of public accountants and private positions rarely come to its attention.

The applicants whose qualifications are published in the *Bulletin* are not the only men registered. In a period between issues of this magazine new registrants often appear. They may find employment before the subsequent issue is published. Consequently firms in need of assistants are urged to communicate with the exchange so that there may be a record of their wants.

It is also requested that the exchange be kept advised of the results of negotiations between firms and applicants. Such information greatly facilitates efforts to be of assistance to both.

The following applicants are typical of those at present registered with the exchange:

No. 4A—Woman, unmarried, age 36, associate American Institute of Accountants and C. P. A. Experience includes three years with New York public accounting firm and three years as assistant treasurer of New England manufacturing company. Education—high school, business college and university extension work. Salary commensurate with responsibilities.

No. 11A—An executive position either in public or private practice is wanted by a member of the American Institute of Accountants who is also a C. P. A. and a chartered accountant. Fifteen years' public accounting experience and 3 years as comptroller. Age 41. Salary subject to arrangement. Resides in New Jersey.

No. 13A—Accountant, age 38, with 11 years' public practice with well-known firms and on own account and with 5 years' experience as comptroller of a manufacturing company, desires comptrollership of a private corporation or managership of a branch office of a public accounting firm. Member American Institute of Accountants and certified public accountant of New York and New Jersey.

No. 22A—Semi-senior accountant now in Hawaii wishes position in the United States. Age 30, married. Has had 2 years' experience in public accounting. Has also been cost accountant for agricultural company.

No. 23A—Senior accountant in Florida wishes position in another state. Age 37, high-school graduate. Six years' experience in public accounting and two years as privately employed auditor. Salary \$250 a month.

No. 30A—Member, American Institute of Accountants, C. P. A. Minnesota, age 42, with 10 years' public accounting experience, wishes position in Minneapolis, Chicago, or some other city. Recently sold his own practice in order to engage in outside activities. Now wishes to

re-enter profession. Married, with dependents. No objection to travel. Salary subject to arrangement.

No. 34A—Member, American Institute of Accountants, C. P. A. of North Carolina and Incorporated Accountant of England, wishes executive accounting position with public accounting firm or private corporation, preferably in western North Carolina or Tennessee. Age 34, married. Thirteen years' public practice. No objection to travel.

No. 39A—Member, American Institute of Accountants, 40 years old, wishes position in public accounting or private concern with salary of at least \$5000. C. P. A. of New York, New Jersey and Pennsylvania. Twenty years' public practice.

No. 44A—Associate, American Institute of Accountants, C. P. A. Indiana, Tennessee, Florida, with 5 years' public practice and experience with mining companies, wishes position at \$5000 a year. Speaks Spanish.

## HERE AND THERE

Charles H. Steel & Co. announce the removal of their offices from 719 Schaff building to 712 Provident Trust building, Philadelphia.

Temple, Brissman & Co. and Pace, Gore & McLaren, St. Paul, Minnesota, announce the removal of their offices to the Accountants' building, 107 East Third street.

Glenn O. Williams and Carl D. Thomy, members of the firm of Glenn O. Williams & Co., 1223 Commerce building, Rochester, New York, announce a change in the firm name to Williams & Thomy.

Miller Bailey, Kansas City, Missouri, has been appointed a member of the national panel of arbitrators of the American Arbitration Association and a member of the banking and accounting and business literature committees of the Kansas City Association of Credit Men.

Harold E. Bell of Sharon, Pennsylvania, addressed the Kiwanis club of Sharon, November 6th, on "Prevention of failures in business."

At a meeting of the New York Society of Accountants held November 23, 1928, at the Hotel McAlpin, Jacob Bennett, New York, spoke on "Problems of insurance-brokerage accounting." Mr. Bennett has been acting as conference leader for a vocational training group under the auspices of the New York State Association of Retail Meat Dealers, Inc.

An article entitled "Monthly financial statements for dealers in oil burners" by R. R. Bishop, New York, appeared in the April, 1928, issue of *Fuel Oil and Temperature Journal*.

Andrew Blass, Pittsburgh, addressed the Electrical Contractors Association in that city, September 6th, on "Management standards." On September 24th Mr. Blass spoke on "Need for accountings" before the Westmoreland Electric League at Greensburg, Pennsylvania, and on October 9th he delivered an address entitled "Accounting and operating standards" before a meeting of the Pennsylvania State Association of Electrical Contractors & Dealers held at Pittsburgh.

Reynold E. Blight has recently addressed the Million Dollar club of Los Angeles on "Psychology of business insurance," the Bankers' club on "Zigzagging over the continent," the Exchange club on "Constitution of United States" and the X club on "Outlook for democracy." "Credits and their uses," an article by Mr. Blight, appeared in the September issue of *Educational Bulletin*.

H. C. Daines of Chicago spoke on "Budgetary control for funeral directors" at a meeting of the National Association of Funeral Directors in Kansas City on October 15th. Mr. Daines' address was published in the proceedings of the association.

Announcement has been made of the publication by John Wiley & Sons of a book by DeWitt C. Eggleston, New York, entitled *Auditors' Reports and Working Papers*.

J. Brooks Heckert, who has recently been elected president of the Columbus chapter of the National Association of Cost Accountants, spoke before that organization on November 23rd on "Control of investment in inventories." The October issue of *Ohio Commerce* contained an article entitled



"This thing of budgeting—where it fails" by Mr. Heckert, and another article by him, entitled "Cost of carrying accounts receivable," appeared in the November issue of the *American Accountant*. At a meeting of the National Association of Cost Accountants held at Cleveland, November 21st, Mr. Heckert delivered an address entitled "Control of investment in inventories."

"Stock-brokerage accounts and their audit—a brief review" was the subject of an address delivered by Anson Herrick at a meeting of the California State Society of Certified Public Accountants in San Francisco on November 14th.

George R. Keast, San Francisco, spoke on "Budgets: their organization and administration" at a meeting of the National Association of Cost Accountants on November 15, 1928, in San Francisco.

Caddie H. Kinard, El Dorado, Arkansas, addressed the Retail Men's Credit Association in that city September 5th, on "Auditing and its value."

On October 23, 1928, John J. Lang, St. Louis, addressed the Foundrymen's club of that district on "Fundamentals of foundry cost accounting."

W. W. Larkin of Manila has been elected president of the hospital for crippled children in his city. At a meeting of the Amateur Accountants Association of Manila on August 12th Mr. Larkin spoke on "Public accounting."

Edwin E. Leffler spoke on "Rebuilding antiquated cost systems" at a meeting of the Buffalo chapter of the National Association of Cost Accountants, October 15th.

W. P. Peter, Dallas, Texas, delivered an address entitled "History and growth of accountancy" at a meeting of the Dallas Association of Accountants on November 2nd.

Paul W. Pinkerton, Chicago, addressed the school of commerce of the University of Wisconsin, November 2nd, on "The field of public accounting," and spoke before the

Madison Accountants' club on "Tendencies in public-accounting legislation." Mr. Pinkerton also spoke on "Public accounting: a united profession" at a meeting of the Illinois Society of Public Accountants in Chicago on November 19th.

Edward C. Romine, New Rochelle, New York, addressed a meeting of the American Hotel Association in Denver, September 28th, on "Where the visitor's dollar goes."

Stephen G. Rusk, Cleveland, Ohio, has been appointed finance director of the City of Cleveland. The appointment became effective October 1, 1928.

O. W. Schleeter has been elected treasurer of the Rotary club of Charleston, South Carolina, and has been appointed chairman of the club's committee on vocational service.

S. Earl Shook, Bridgeport, Connecticut, has been appointed chairman of the audit committee of the community chest drive in his city.

C. D. Smith of Green Bay, Wisconsin, delivered an address entitled "Analysis of balance-sheets by investment bankers and credit men" at a meeting of the American Institute of Banking, November 21st. Mr. Smith has been acting as chairman of the budget committee for the local community-chest campaign.

Leon E. Vannais, of Hartford, presided at a session of a conference on industrial accounting held at Hartford, Connecticut, on September 25th, under the joint sponsorship of the Hartford chapter, National Association of Cost Accountants and the Manufacturers Association of Connecticut.

Two articles by L. K. Watkins, Buffalo, appeared in the *American Accountant* for October, entitled "On the job" and "How correction of accounts payable affects taxable income." "Work beyond scope of engagement," by Mr. Watkins, appeared in the November issue of the same magazine. Mr. Watkins has been serving in the special membership campaign of the Buffalo chamber of commerce.

# BULLETIN

OF THE  
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## Results of Institute Examinations

About 14 per cent. of the candidates who sat for Institute examinations in coöperating states last November received a passing grade. Approximately 15 per cent. were conditioned in one subject and 71 per cent. failed.

## Annual Meeting, American Institute of Accountants

With the purpose of making the 1929 annual meeting of the American Institute of Accountants at Washington, D. C., the most delightful in its history, the committee on meetings has already commenced its activities. A meeting of the whole committee, with the president and the secretary of the Institute, was held at the Institute offices on January 4, 1929.

The whole programme was tentatively outlined and various tasks were assigned different members of the committee.

Special plans for the entertainment of ladies will be carefully prepared. A committee of ladies will soon be appointed to organize a programme of entertainment, and members of this committee will personally see that the meeting is made pleasant for the wives of members who attend.

It is expected that foreign visitors, attending an international congress on accounting at New York a week prior to the Institute's meeting, will also visit Washington, and they will be invited to be present at the Institute's meeting. A special reception committee will care for the entertainment of these and other guests.

The committee will make every effort to induce a large attendance by younger members of the Institute. Expense will be kept at a minimum and an estimated individual cost will be published for information well in advance of the meeting.

## Roster of Institute Members in Ohio

The Northern Ohio chapter of the American Institute of Accountants has published a pamphlet containing the names of members of the chapter and of the firms which they represent. The roster shows that the present membership includes 46 accountants representing 24 public accounting firms.

## Court Rules Accountancy Is a Profession

An accountant recently sued a client, in a Louisiana district court, for compensation for services rendered under written and oral contracts, the existence of which was apparently unquestioned. The plaintiff was a certified public accountant of Texas, not Louisiana, and the defendant based its defense partly on the accountancy law of Louisiana, which prohibits practice in that state as a certified public accountant by anyone who is not registered as a C. P. A. by the Louisiana state board of accountancy.

The court stated, in effect, that contracts may not be legally enforced if they involve illegal functions. However, matters ordinarily legal, but forbidden to certain classes of persons, may be an exception to this principle, it was said. Some licences, such as those of brokers, the court said, are es-

entially merely receipts for payment of a tax, and a contract by a party who had failed to obtain such a licence would not necessarily be null, unless a statute expressly so provided. Licences of this type are principally for purposes of revenue and are not imposed to protect public welfare by prohibiting specified activities by unqualified persons.

The practice of medicine or law is in a different category, being limited to practitioners who have been judged qualified by properly constituted authorities. The licence in these circumstances is evidence of qualification, and not primarily a consideration for payment of a fee.

In considering the case at hand, the court delivered the following statements:

"It is required in this case to determine whether the legislative enactment, making the practice of public accountancy unlawful in the absence of a certificate duly issued, strikes with nullity a contract of employment of an accountant not certified.

"A competent public accountant must doubtless possess certain natural qualifications, improved by education and experience. It is clear that an incompetent accountant might injure the public seriously by malpractice. In *State v. DeVerges*, 153 La. 349, which appears to be the only Louisiana case on the subject, it is said that accountancy did not affect the morals, health or safety of the public, however incompetent the person practising the profession might be. But the later policy declared by the legislature, in its act of 1924, is controlling, and can be deduced only from the act itself. The act creates a board to be appointed by the governor. Applicants for certificates shall submit to a written examination by the board on "Theory of accounts," or other subjects named, and on such additional subjects deemed necessary by the board. They shall prove at least a high-school education and good moral character. The board may then issue a certificate, which may be revoked, after hearing for "unprofessional" conduct. The certified accountant is prohibited from disclosing any information gained in his employment.

"It is seen that the public policy of the state, as set out in the act of the legislature, considers public accountancy as a highly skilled profession, and the regulation of its practice to be essential to the well being of the public. The moderate fee to be paid for the certificate can not be considered the moving cause of the enactment; it is merely incidental to the regulation deemed important in the public interest, and, at most, designed to relieve the state itself of some of the cost of such regulations. The present case can not, therefore, be compared with the several cases cited, in which licences for brokerage were involved. On the contrary, it must be held that the public policy of the state places accountancy in the class of learned professions, and for the public protection, prohibits its practice, under penalties, by those not duly qualified under the legislative act. It declares such unauthorized

practice of the profession to constitute a misdemeanor, punishable like other violations of penal statutes, by fine and imprisonment."

In the light of the evidence adduced, the court considered it proved that the accountant had practised in Louisiana as a certified public accountant in violation of the Louisiana law. The contract in question, therefore, was judged unenforceable, and the demands of the plaintiff were ordered rejected, at the cost of the plaintiff.

It has been reported that the case has been appealed to the supreme court of the state.

### **English-speaking Accountants in Paris**

The annual dinner of the English-speaking accountants in Paris was held on Friday, November 23, 1928, at the Hotel Continental, Paris. The chairman was Oscar Fawcett. One hundred persons were present in addition to the following guests: the president of the Institute of Chartered Accountants, Sir Nicholas Waterhouse; the president of the Society of Incorporated Accountants and Auditors, Thomas Keens; J. R. Cahill, British commercial attaché; C. H. Maclean, American commercial attaché; W. Hennessy Cook, president of the British Chamber of Commerce; J. C. Bullwinkle, treasurer of the American Chamber of Commerce. The president of the Society of Incorporated Accountants and Auditors was accompanied by the parliamentary secretary, J. R. W. Alexander.

After the loyal toasts had been given, the chairman proposed the toasts of the president of the institute and the president of the society. He prefaced his remarks by stating that it had been hoped to have the pleasure of the company of Sir William Plender and of A. H. Carter, a member of the executive committee of the American Institute of Accountants, but both had sent messages of regret.

The chairman said that he did not intend to describe to the general company the activities of the guests of honor, which were well known to the English-speaking accountants in Paris. He proposed rather to explain to the guests of honor the activities of the English-speaking accountants in Paris. In 1923 a meeting of English-speaking accountants practising in Paris was called by members of some of the leading firms.

Twenty were present on that occasion, representing seventeen firms; of the twenty then present, seventeen were still in Paris. The seventeen original firms were reduced to fifteen by amalgamations, and newcomers had brought the total up to twenty-five. This body was informal and unofficial, he said, but it had served a useful purpose in that it enabled the various members to consult each other informally, to exchange views on matters concerning the welfare of the profession in Paris, and to elucidate various points of difficulty which were continually arising. He said that the members of firms in Paris met at quarterly luncheons at which the chair was taken in rotation, and that a dinner was held annually, attended by partners and managers of firms practising in Paris, members of their staffs and other members of the profession who might be in Paris at the time. At these dinners they had had the company of Sir John Bradbury, Sir William Plender, A. P. Richardson, the secretary of the American Institute of Accountants, and other prominent British and American visitors.

The chairman then mentioned the subject of the recent French decree authorizing the grant of a "brevet d'expert comptable" recognized by the state. He said that this was an important step, showing that the French authorities realized the importance of creating a trustworthy body of expert accountants. A committee had examined the situation arising out of this decree, and had ascertained from the French ministry that accountants of nationality other than French were not excluded from the examinations, and furthermore that service with a firm of English-speaking accountants practising in Paris would be recognized as the preliminary service required by the provisions of the decree prior to sitting for the examinations. On the other hand only accountants of French nationality would be eligible for a grant of the brevet without taking the examinations. This seemed to be a not unreasonable provision, he said.

The chairman thought that the action of the French authorities was an important step in the right direction, though some criticism on the ground of undue favoritism had been directed at the first appointments under the new decree. He further expressed the opinion that the proposed restriction of

membership to British nationals in the draft amended charter of the institute might, if passed, only lead to retaliation in other countries.

Finally, he pointed out the utility of this unofficial body of English-speaking accountants in discussing and elucidating the complexities of French fiscal legislation and in watching the new activities of the authorities in their attitude toward foreign companies operating in France. He further remarked that the English-speaking accountants watched over many millions of francs of British and American capital invested in France. He thanked the guests on behalf of the committee for attending the dinner.

Sir Nicholas Waterhouse, in responding to the toast, said that he was much honored by being invited as a guest to the dinner and being asked to reply to the toast of the Institute of Chartered Accountants.

He said that the accountancy profession, as understood in England, was still in its infancy in France, but during the last few years its usefulness appeared to have been more and more appreciated, and now the first steps had been taken by the French government to organize and control it. He had always felt that it was the activities and influence, some half century ago, of the pioneer English accountants practising in the United States of America to which the profession in that country largely owes the status and reputation which it now enjoys. He thought that the same process was in the course of evolution in France, and that it was only a matter of time before the profession in that country would be governed by the same principles and ideals as those of which the chartered, incorporated and certified public accountants are so proud. Although there had been some criticism, he felt sure that before the French diploma was very old its holders would join together to enforce a code of ethics and constitute a governing body possessing disciplinary powers of its own. Without such a step he doubted if the diploma in itself had quite met the situation, for, as a writer in a leading French banking journal said, expert technical knowledge is an admirable thing for the profession, but without esprit de corps it is useless against fraud and in fact sometimes serves to facilitate it.

He called the English-speaking accountants in Paris the pioneers of the profession

in France, and he congratulated them on the progress they had made and on the fact that their usefulness had so soon been recognized in that country. He felt confident that, as in America, so in France, there would be room for those of different nationality to carry on and share the good work, still maintaining the friendly relationship that now exists between them.

Thomas Keens, who also responded to the toast, said that the gathering was a unique one, inasmuch as it should be regarded as truly international. He paid a tribute to France, whose soil had been sanctified by the blood of French and English-speaking soldiers.

The good relationship between America and Britain, he said, was strongly evidenced in the activities of the aptly named English-speaking accountants in Paris. After all, they have a common race and speech and, particularly in the field of accountancy, common ideals, Mr. Keens said. He hoped that many of them would meet again at the international congress on accounting to be held next September in the United States of America.

Mr. Keens said that he had been anxious while in Paris to inquire into the position of the English-speaking accountants in France, as it was likely to be affected by recent French legislation. He was pleased to hear the reassuring remarks of Mr. Fawcett, and observed that this development was typical of the new nationalism which was to be seen in all parts of the world, particularly in Australia, South Africa, Argentina, Chile and Japan. In all these countries steps for the organization of the accountancy profession have been recently taken.

The toast of the commercial attachés was proposed by J. Balfour Horne, who described the useful activities of those two officers in guarding the interests of English and American trade and commerce. J. R. Cahill, in responding to the toast, stated that he had had no idea until that evening how strongly represented in Paris were the various bodies of English-speaking accountants. He thanked those members who had so frequently given their services without monetary reward in dealing with the accounts of various charitable institutions in Paris. He gave a survey of French commerce and in-

dustry and mentioned its tendency to be in the hands of families rather than in those of financial groups, thus giving a far more personal touch than is the case in English-speaking countries. He paid tribute to the marvelous recovery of France from the ravages of war and to the spirit which had rendered this possible.

H. C. Maclean ended a humorous reply by referring to the bond of a common language and promising his coöperation in any matter in which the English-speaking accountants in Paris might require his intervention.

The toast of the representatives of the chambers of commerce was proposed by J. H. Johnstone, who referred to the great assistance afforded by these two institutions to English and American trade and commerce. Hennessy Cook in his reply referred to the restrictions imposed on the employment of foreign labor in France and finally stated that he hoped to see in the future a united and powerful body of British and American business men in Paris capable of defending their own interests.

J. C. Bullwinkle replied in the name of the American Chamber of Commerce and thanked the company for inviting him to be present.

### **New Zealand Society of Accountants**

The 1928-29 year-book of the New Zealand Society of Accountants which has recently been published shows that the present membership of the society is 1,820.

### **Tentative Programme for International Congress on Accounting**

A tentative programme has been prepared for an international congress on accounting to be held at New York, September 9 to 14, 1929. The programme is subject to revision. At present it is believed that papers and discussions on the following topics will be included:

1. Legislation relating to accounting in various countries. This topic will emphasize not only laws affecting the public practice of accountancy but also legislation which may affect accounting in the determination of cost for import duties, etc.; accounting in private industry for tax purposes or in mergers or cartels, and public

or private accountants in their responsibility to creditors and investors.

2. Education affecting accountants and accountancy. The discussion will include description of educational activities of professional and private associations; the educational methods of public accounting firms for the benefit of their own staffs, and the educational programmes in accounting in universities throughout the world.

3. Depreciation. The papers on depreciation will deal with the theories of depreciation and with practical problems involved in taxation, security investments, the effect of re-appraisals, the effect of progress in the arts, and cost of production.

4. Financial statements. There will be papers on principles of valuation, standardization of balance-sheets and consolidated balance-sheets, accountants' reports and accountants' responsibility for inventory verification.

5. Costs of production. Papers will be read on standard predetermined costs, on operating procedures and on selling costs.

6. Commercial budgetary practice. As part of the discussion of budgetary practice papers will be included on the present status of budgeting, forecasting and planning; financial control policies in industry, and municipal and governmental budgets.

7. Business discussions. The possibility of forming an international organization of accountants will receive consideration. The desirability of the natural business year; the possibility of reforming the calendar year according to the 13-month plan and other business matters will also be discussed.

The leading papers will be printed in several languages and distributed prior to the sessions. The printed papers will probably not be read, as the delegates will undoubtedly peruse them in advance. The chairman of each session will present the authors and the subjects will be discussed from the floor.

It is planned to have exhibits on view at New York University and at Columbia University during the week of the congress.

#### ESSAY CONTEST

The executive committee of the international congress on accounting has announced that an essay contest will be con-

ducted as part of the activities of the congress.

Three prizes of \$500, \$300 and \$200, respectively, are offered. Competition is open to any member of a recognized accounting organization, to any junior in a public accounting office, and to any student attending an accounting class in any recognized school (including correspondence schools) in the world. Each entrant must be under 30 years of age and must write on a subject contained in the official programme of the congress. The papers submitted must show constructive or original thought and must not contain more than 3,000 words.

Papers must be submitted before May 1, 1929. If feasible, authors receiving awards will be asked to read their papers at the congress to be held during the week of September 9, 1929.

The committee of judges consists of Patrick W. R. Glover, president of the New York State Society of Certified Public Accountants, John T. Madden, dean of the school of commerce, accounts and finance, New York University and Roy B. Kester, professor of accounting, Columbia University.

Inquiries should be directed to G. L. Courtney, New York University, 100 Washington Square, East, New York, N. Y.

#### **Predetermining Costs in Cotton-textile Industry**

"An outline of bases to be used in predetermining costs for guidance as to sale policies" is the title of a pamphlet recently published by the Cotton-textile Institute, Inc., New York. In a letter of transmittal to mill executives the president of the organization states that one of the most important ways to promote the cotton-textile industry will be to encourage a thorough re-examination by each mill of its cost-finding methods. Executives are urged to undertake such a study and test their present methods by certain fundamentals set forth in the outline. It is suggested that in the re-examination the manufacturer ask himself the following questions:

"Am I using cost-finding methods that are intended to show separately the cost of each number or construction before I make it?"

"Am I using a sound and accurate figure for 'normal production'?"

"In quoting prices for my product, am I employing proper replacement costs for cotton and other raw materials, with accurate determination of net waste?"

"Am I making due allowance in my predetermined costs for interest on investment?"

"Am I assigning my maintenance items to operating costs (and not to capital account)?"

"Am I assigning my labor and overhead accurately to the different products of my mill?"

"Am I free from the charge of assigning important items of my costs on bases of 'averages' which produce misleading results?"

If any answers are in the negative it will be an indication that the cost-finding methods of that particular mill may be producing misleading results. The letter emphasizes the importance of a clear knowledge of costs in determining sales policies and attributes ruinous competitive prices largely to indifference in this matter. Criticism by mill executives is earnestly requested. The outline is not intended to be a detailed cost manual but is confined to the development of what are regarded as proper basic principles. The outline has been reviewed by professional public accountants and by engineers.

The pamphlet contains 39 pages and deals with the following topics: definition of costs, normal production, cotton and waste, cost of cotton in product, depreciation, interest on investment, miscellaneous questions of labor and overhead, predetermined budget for cost calculations, accurate assignment of costs to different products, assignment of overhead and reconciliation of predetermined costs.

### **Cost Manual of Woolen and Worsted Industry**

In an effort to assist woolen and worsted cloth weavers of the United States to learn and record their costs, in comparison with those of other manufacturers as well as with their own best efforts in the past, the Wool Institute, Inc., has published a cost manual for the industry. The foreword of the manual mentions competition as a most stimulating factor in production, and the cost manual is submitted to assist weavers

of this country to carry on the industry in the most efficient method possible. It is said that the cost manual should never be completed and that it is merely a starting point from which the industry may formulate accounting rules to follow the future.

The manual was compiled by professional public accountants. It begins with a discussion of the necessity for a cost system and a survey of cost accounting in other industries, followed by argument for a uniform cost system in the woolen cloth industry. The succeeding chapters discuss fundamental principles of the system, the whole system in outline, direct labor, mill overhead expense, process material, cost predetermination, production reports and measurement of variations, accounting records and procedure, accounting procedure in woolen mills, and worsted spinning. Thirty-nine forms and charts are used as illustrations of the text. The manual contains 121 pages.

The manual was prepared after a survey of more than thirty mills where free access to all records was given. No uniformity in methods was discovered by those engaged in the research. The proposed system is based on the method of predetermined or normal cost.

### **Stockholders and Public Entitled to Complete Financial Information**

Corporations which understate assets and earnings are dealing unfairly with their stockholders and with the public, which includes potential purchasers of securities, according to Arundel Cotter, writing in a recent issue of *The Wall Street Journal*. Unless over-conservative reports are voluntarily replaced by true statements of financial condition, he says, statutory compulsion may be exercised to provide the investing public with the information to which it is entitled.

While he recognizes the honesty of reactionary directors who conceal earnings and assets in good times so that dividends may be continued in poor times, the writer complains that such a policy is undeniably unjust to the shareholders who might be inclined to sell their holdings unless true conditions were known.

### Quality or Quantity of Assets?

*The American Banker* recently published an article by an accountant describing a method of rating banks as to safety by using ratios of capital to total assets and further resolving the numerical ratios into such classifications as "excellent," "good," "fair," etc.

In a subsequent issue of the magazine A. J. Allis, vice-president of the Grace National Bank of New York, is quoted as saying that such a means of classification is likely to be misleading because it disregards the quality of the assets in question. Quick assets such as cash, bonds and reserve-bank stock, he says, materially affect the safety ratio. Some assets are subject to shrinkage, and it would be more fair to compare this group with the capital and surplus by which possible shrinkage would be absorbed than simply to lump all assets

indiscriminately and evolve a ratio based on that figure.

The extent to which a bank would have to liquidate its assets to pay off all liabilities is the vital consideration in determining margin of safety, Mr. Allis says.

### German-American Conference on Budgets

Announcement has been made that a German-American industrial conference will be held at Berlin in the early part of February, 1929. The industrial budget will be the principal theme of discussion. Heinz Ludwig, who has made a survey of 15 different industrial organizations with special attention to budget control, will present the results of his research. It is said that this will be the first international conference of its kind. The conference will be held in coöperation with the International Management Institute.

## COMMITTEE ACTIVITIES

### Committee on Federal Legislation

The chairman of the Institute's committee on federal legislation has been advised from various sources that at the present time no tax legislation is expected at this session of congress.

He has also been advised that the work upon income-tax *Regulations* 74, interpretative of the income-tax provisions of the revenue act of 1928, and upon the consolidated-returns *Regulations* 75, to be promulgated under section 141 of the revenue act of 1928, is practically completed and that both sets of regulations will soon be published.

It is believed that income-tax *Regulations* 74 will make no change of importance in the provisions of *Regulations* 69 applicable to the revenue act of 1926 other than those required by specific changes in the law. Consolidated-returns *Regulations* 75, which are applicable to the year 1929 and subsequent taxable years, are new. They were prepared after public hearings in Washington.

### Committee on Professional Ethics

In an attempt to coöperate with state societies of accountants in raising the standards of professional accountancy throughout

the country the Institute's committee on professional ethics is undertaking a survey of present conditions in all the states. Letters have been sent by the committee to state societies asking for information concerning the rules of conduct in effect, the manner of administering them and the extent to which observance of the requirements has been enforced in the past. Responses to this inquiry have been numerous and the committee hopes to prepare a thoroughly comprehensive report on the whole subject.

### Special Committee on Natural Business Year

In a letter from the chairman of the Institute's committee on natural business year to other members of the committee a suggested plan of activities is outlined. An attempt will be made to enlighten business men, with reference to the advantages of using an appropriate fiscal year, by means of contributions to magazines which reach a large and influential part of the business community. It is hoped that executives may be made familiar with the problem. Such a campaign of education will prepare the way for effective arguments by accountants at meetings of business executives and in private conversation.



## **Special Committee for Placements**

The activities of the bureau for placements are naturally at low ebb during the late autumn and early winter. Most college students are graduated in June and practically all those who apply to the bureau for positions with accounting firms and are judged eligible are placed by the first of December.

The special committee for placements, however, is already at work in an effort to increase interest in accountancy among promising seniors at colleges of high standing. Letters have recently been sent to accounting professors and to college officers, asking their coöperation in bringing to the attention of students the advantages which accountancy offers men of the right type. Items have been prepared for possible publication in college newspapers, outlining the plan of the bureau, and the committee has offered to request members of the Institute to speak on accountancy at colleges where there is a desire to hear such addresses.

It is not too early for firms which expect to employ college graduates through the bureau to make known the approximate number of men they wish to engage from the next graduating class. It greatly facili-

tates the work to estimate requirements in advance.

The plan of placement developed by the committee has often been announced to the membership of the Institute. It provides for a thorough investigation of each applicant's record, culminating in a personal interview. Men who are deemed promising are referred to firms which have requested junior assistants from the bureau. The minimum initial salary is \$125 a month. Each applicant engaged is assured of continuous employment for at least three years, unless his work is unsatisfactory—that is, he is not to be discharged because of temporary decrease in the practice of the firm. No fee is charged to applicants, but firms are requested to contribute \$50 for each assistant whom they employ through the bureau. For two years the bureau was supported by private donations, but it now pays all expenses by means of fees by employers.

The records of the bureau at December 31, 1928, showed that it had received 737 applications from graduates of 141 colleges. One hundred and twenty-eight of these applicants had been approved by the committee and placed in the offices of members of the Institute.

## **STATE LEGISLATION**

### **Oklahoma**

The Oklahoma Society of Certified Public Accountants has prepared a draft of an accountancy law which it is intended to submit at the present session of the state legislature. The present bill follows the laws of other states more closely than does the accountancy law now in effect in Oklahoma. The proposed law would not be restrictive or regulatory. It provides for the appointment of a state board of accountancy in the usual manner, for an annual examination, and for the issuance of C. P. A. certificates to applicants who satisfy specified requirements. Only accountants having received certificates as provided by the act would be permitted to practise as certified public accountants or to use the designation C. P. A. in the state. Provision is made for reciprocity with other states.

The bill contains a privileged-communication clause, prohibiting certified public ac-

countants from revealing confidential information obtained in the course of engagement and excusing them from examination on confidential communications with clients. Working papers are stated in the bill to be the personal property of the accountant. Special sections provide for recognition of holders of certificates as certified municipal accountants and certified commercial accountants under the present law. They would be able to obtain C. P. A. certificates under the new law by examination only in subjects which they had not already taken for the certificates now in their possession.

### **Oregon**

The Oregon State Society of Certified Public Accountants is sponsoring an accountancy bill which will be presented to the state legislature, whose session commenced this month. The most important features of the bill are the registration of

non-certified public accountants and a requirement of three years' accounting experience, in addition to examination, for eligibility to receive a C. P. A. certificate.

### **Texas**

The committee on legislation of the Texas Society of Certified Public Accountants has recommended several amendments to the present accountancy law of the state. The most important amendments proposed are that the state board be given power to establish and enforce a code of professional conduct, that the board distribute an annual roster of certified public accountants, and that the practice requirement for applicants

for C. P. A. certificates be increased to three years, with credit for one year for university graduates.

The recommendations were tentatively accepted at the annual meeting of the society, but the committee was instructed to draft a law as it would appear with such amendments and distribute copies to the membership. The draft was then to be referred to the board of directors for action. A resolution was adopted instructing the new committee on legislation to conduct a two-year educational programme describing the advantages of regulatory legislation in order that a bill of this kind might be prepared and submitted to the legislature in 1931.

## **STATE BOARDS OF ACCOUNTANCY**

### **Connecticut**

E. J. Monde has been appointed by Governor Trumbull as a member of the Connecticut state board of accountancy for a term of three years beginning January 1, 1929. Mr. Monde succeeds H. F. Seward, who tendered his resignation after having served two terms aggregating six years.

### **Florida**

Robert Pentland was elected president of the Florida state board of accountancy at a meeting of the board held December 28th. C. Cecil Bryant was elected secretary and treasurer.

### **Pennsylvania**

Seventy-four candidates passed the C. P. A. examinations of Pennsylvania, held in November, 1928. The whole number of candidates trying the examinations was 133. The successful candidates are: Harry A. Altman, Benjamin E. Antinoph, Allen A. Badler, Donald A. Banks, Herbert Baylson, Rudolph S. Bozzelli, Earl D'Arcy Brown, Robert F. Brown, Samuel F. Chapman, Richard A. Coleman, John J. Coughlan, George J. Covalt, Leo M. Daly, Wm. M. Dietrick, John W. Donahey, Harrison R. Drew, Harry V. Eichmann, Gerald S. Erb, J. Henry Erk, Maurice T. Fleisher, Max A. Folk, Edward J. Forler, Charles F. Frank, Albert J. Frohock, Harold W. Furness,

Richard J. Gallagher, Rolf Griem, Harry F. Haag, John H. Haire, Sloan R. Hall, Ralph T. Hand, Samuel G. Hartline, Herbert L. Heidenreich, Thomas N. Herreid, Wm. T. Hilles, Walter H. J. Hoffritz, Norman F. Kime, Albert J. Levin, Michael J. Loftus, Clyde J. McAbee, John Joseph McFarland, Ralph W. McGrew, Harry I. MacLean, Fred P. Meves, Robert F. Moll, D. Paul Musselman, Lawrence C. Myers, Edward J. Naravas, Robert Scott Noone, J. Donald Notman, Glenn O. Petty, Charles A. Pfahler, Samuel W. Price, John G. Reis, Harry M. Richman, Earl T. Risser, Paul C. Romig, Alexander L. Rosenthal, Robert D. Seagraves, Elbert V. Silver, Francis E. Sowersby, William H. Specht, Alvin W. Sponagle, Phillip H. Srolowitz, James A. Stacy, Harold C. Stott, William D. Stowe, George Tarshes, Harold J. Venger, Stewart McC. Walker, William W. Walters, C. Eugene Walton, H. Oliver Whayland and Robert B. Wolfe.

### **Virginia**

C. P. A. certificates have been awarded to the following candidates who were successful in the Virginia examinations held in November, 1928: J. L. Davis, Wayne F. Gibbs, Ernest T. Haywood, Lawrence A. Hohmann, J. Madison Macon, R. B. Sprigg, Frank C. Sproul, D. W. Stanton, A. T. Stewart, A. M. Toler, Morris W. Whitaker.

## NEWS OF LOCAL SOCIETIES

### California State Society of Certified Public Accountants

#### LOS ANGELES CHAPTER

At the regular monthly meeting of the California State Society of Certified Public Accountants on December 17th, J. Hugh Jackson, of Stanford University, delivered an address on "The case method of teaching auditing."

### Florida Institute of Accountants

The semi-annual meeting of the Florida Institute of Accountants was held at Tampa, December 14th and 15th.

The Rev. J. C. Tims offered an invocation at the beginning of the meeting. D. B. McKay, mayor of Tampa, gave an address of welcome to which Harry B. Graham responded. After the reports of officers and committees and after routine matters had been disposed of, the secretary of the American Institute of Accountants spoke on various problems of the accountancy profession.

After a recess for luncheon the afternoon session was called to order at 2 p.m. James D. A. Holley discussed the question "Do we wish to amend the present accountancy law?" The general conclusion of his address was that the C. P. A. law of Florida in its present form is satisfactory. Thomas R. Spillane, in an address entitled "How can the institute help the state?" suggested various ways in which the accountancy profession could assist the business community and the government.

At 7:30 p.m. dinner was served at the Tampa Terrace hotel. Jay E. Bigham acted as toastmaster.

At 9:30 a.m. on December 15th the third session began with an address by Paul A. Meredith, secretary of the Florida Association of Real Estate Boards. His subject was "The realtor and the accountant." After discussion of his paper, reports of presidents of local chapters of the institute were submitted.

West Palm Beach was chosen as the place for the annual meeting of the Florida Institute, which will be held in June, 1929.

On December 18th the secretary of the American Institute addressed a meeting of the Miami chapter of the Florida Institute.

On December 20th the West Palm Beach chapter of the Florida Institute gave a dinner in honor of the secretary of the American Institute. This was the first meeting of accountants in West Palm Beach since the hurricane disaster of September, 1928. There was a large attendance and the meeting was notable for the interest and enthusiasm which was apparent.

### Committee of Indiana Society Discusses Cash Safeguards

The public-affairs committee of the Indiana Association of Certified Public Accountants has issued a bulletin on "Cash safeguards" for the information of the business public in Indiana. This is the third of a series of six bulletins which the committee has undertaken to issue during the current year.

Misappropriations of cash are generally of two types resulting, first, from failure to account for receipts and, second, from fraudulent disbursements, the bulletin says. Most defalcations are of the first type. Failure to record cash as received is a common practice of dishonest employees. The following are given as methods of misappropriation with attempt at concealment which are often encountered: manipulation of sales record; entry in cashbook of receipts from customers which are omitted from footings; "kiting" receipts from customers; receipts of miscellaneous income not accounted for; cheques issued and not recorded or irregularly recorded; irregularities in payrolls or in petty-cash vouchers; collusion with suppliers.

Nothing but a complete audit will suffice to make it certain that all cash received has been entered, it is said. Details of checks against internal fraud are outlined in the bulletin and it is recommended that officers and employees who have access to cash should be bonded. Periodical audits are also recommended as a deterrent to fraud.

### Massachusetts Society of Certified Public Accountants

The discussion of questions related to accounting practice and procedure, begun in November, was continued at a meeting of the Massachusetts Society of Certified

Public Accountants, December 17th. At the November meeting a list of questions compiled under the direction of James Wil-ling, chairman of the committee on meetings, was presented and discussion of them aroused such interest and occupied so much time that only five of the twenty questions could be considered. This type of programme was tried as an experiment and has been unanimously accepted as a success. A complete list of the questions discussed follows:

1. Should earned surplus be restricted to the undistributed balance of earnings arising from the operations of the present corporation?

2. Does good accounting practice permit of stating earnings before deducting depreciation or replacement charges, provided the fact of such non-deduction (but not amounts) is stated?

3. If the agreement covering the issue of preferred stock by a corporation provides for the setting aside annually out of earnings on March 1st of each year, of a stipulated sinking-fund provision, is it necessary to qualify the earned-surplus account on a December 31st balance-sheet with respect to the provision to be made on March 1st of the succeeding year?

4. Should provision be made for U. S. income tax on undistributed profits of foreign companies included in consolidated balance-sheets and earnings figures?

5. When appreciated values are being used in the financing (modified) balance-sheet, should such appreciated values of plant be used as basis for depreciation allowances in determining earnings stated for a period of years preceding the date of the new financing?

6. Should surplus appropriated for the retirement of preferred stock under the provisions of a preferred-stock agreement be considered as permanently appropriated until the entire issue of preferred stock has been retired?

7. In the event a bond issue is retired is it sound accounting procedure to charge off the discount unamortized at date of retirement against a surplus arising from an appraisal of the company's fixed assets?

8. Under what circumstances, if any, should accountants permit the citation of their names in prospectuses as authority for estimates of future earnings?

9. Is it sound accounting procedure to write off the unamortized discount on bonds still outstanding against capital surplus created by writing down the par or stated value of the corporation's capital stock, in order to relieve future earnings of the annual amortization charge?

10. Must the financing balance-sheet make provision for the expenses of consolidation or financing?

11. In preparing a balance-sheet, is it sound accounting procedure to show losses from operations as a charge against capital surplus and to carry forward the net figure as capital surplus in stating the opening surplus on the balance-sheet prepared at the end of the succeeding year?

12. Would it be sound accounting procedure for a corporation to write off goodwill or other intangible assets by charging them off against a surplus arising from the appraisal of the company's fixed properties?

13. Should the basis of valuation be stated for such balance-sheet items as inventories, investments and plant, or is it to be assumed, in absence of contrary comment, that the items are valued in accordance with sound accounting principles?

14. Should all dividends declared be considered to be payable out of earned surplus, unless definitely stipulated otherwise in the declaratory resolution?

15. Should dividends declared by a subsidiary out of the earnings accumulated by the subsidiary prior to the date of its acquisition by the holding company be added to the earned surplus of the holding company?

16. If dividends are to be shown on the balance-sheet as a deduction from all types of surplus combined, should not the board of directors of the corporation take appropriate action to designate the specific surplus accounts from which the dividends are to be considered to have been payable, in order to permit the proper segregation of the balances in the several surplus accounts as of the beginning of the following year?

17. Should salable materials acquired for fixed-asset extension be carried as current or fixed assets, e. g., rails in a railroad company?

Related question:

When minutes (or contracts) indicate that expenditures for new construction are to be made, where should temporary investments or idle cash be carried, it being the intention to employ them for construction?

18. Is it proper to add to the cost of improved real estate bought for resale or constructed for sale, the excess of current charges for interest, taxes, maintenance and operating expenses over rental or similar income received until the real estate is sold? It is assumed that it is clear from the past history of the company that its business is primarily that of buying real estate and constructing buildings for resale as distinguished from holding real estate for its operating income.

19. Should dividends declared, "payable out of the surplus of the corporation" without any definite designation of the surplus out of which they are payable, in excess of the balance in earned surplus be shown to produce a deficit?

20. Or may such dividends, if declared in excess of the balance in earned surplus, be shown on the balance-sheet as a deduction from all types of surplus combined?

### **New York State Society of Certified Public Accountants**

"The monthly audit" was the subject of discussion at a meeting of the New York State Society of Certified Public Accountants at the McAlpin hotel, New York, January 14th. Joseph Sandler and Louis Weinstein delivered papers on the subject

and general discussion followed. The meeting was preceded by an informal dinner.

### **Oregon Accountants Meet with Bankers**

The Oregon State Society of Certified Public Accountants held a meeting with the Portland chapter of the Robert Morris Associates at the University club, Portland, December 17th. I. D. Wood, president of the Oregon society, occupied the chair and introduced the president of the bankers' organization, who spoke briefly on inter-group relations.

Norman F. Coleman, president of Reed College, spoke on the progress which is being made in harnessing economic forces in business.

The accountant's responsibility for inventory verification was a topic of general discussion. Godfrey C. Blohm, of the West Coast National Bank, emphasized the large percentage of total assets usually represented by inventory and showed how important to the banker are the problems of obsolescence, write-up and unbalanced items in inventories.

L. D. Kork admitted that the inventory is often the largest single item on the balance-sheet and the one most susceptible to misstatement. He stated, however, that accounting methods should suffice to satisfy the accountant that the inventory is correct. He said that accountants are not competent to take and price inventories in every industry and that bankers should analyze accountants' certificates with care and insist on completely verified statements if they wish the accountant to undertake complete moral responsibility. At the request of the bankers, A. L. Andrus described accounting methods of verifying inventories.

William Whitfield spoke on fiscal and calendar years, mentioning the unnecessary difficulties in confirming inventories because of the widespread use of the calendar year. It was suggested by some of the bankers present that the accountants make a schedule of the proper dates for closing the books of various industries. It was also suggested that a liaison committee of bankers and accountants be appointed to consider the question.

Mr. Whitfield and Alexander Rae also spoke on a proposed accountancy bill. The

present accountancy law of the state was warmly supported by bankers before its passage, and Mr. Rae asked similar support for the new bill.

### **Pennsylvania Institute of Certified Public Accountants**

#### **PHILADELPHIA CHAPTER**

A Christmas party was held on December 19th by the Philadelphia chapter, Pennsylvania Institute of Certified Public Accountants. Spencer R. Graves was the speaker of the evening. Music and entertainment were provided.

### **Texas Society of Certified Public Accountants**

The annual meeting of the Texas Society of Certified Public Accountants, held at San Antonio on November 30th and December 1st, had the largest attendance of any in the society's history.

The speakers at the business sessions were Frank H. Bushick, tax commissioner for San Antonio; Porter Whaley, secretary of the chamber of commerce of the city; Reagan Houston, chairman of the board of the federal reserve bank in San Antonio; G. H. Newlove, professor of accounting at the University of Texas; J. Z. George, industrial engineer; W. L. McBride, internal-revenue agent; Henry A. Hirschberg and A. C. Upleger, president of the American Society of Certified Public Accountants.

At the business sessions the membership committee reported the addition of twenty-four fellow members during the past year. The total membership is now one hundred and one.

The report of the complaints committee showed earnest effort to prevent violation of the accountancy law. Attention was called to frequent insufficiency of data accompanying complaints against practising accountants, which results in inability to take action. The society authorized the committee to attempt to use injunctions against practitioners violating the law.

Following a report of a survey of industries in Texas conducted by the committee on natural business year, the society adopted a resolution endorsing the use of a fiscal year other than the calendar year by con-

cerns whose interests would be better served by making a change.

At the recommendation of the committee on revision of constitution and by-laws, a revised draft of the constitution and by-laws was approved. Provision is made in new sections for the establishment of rules of professional conduct and for alterations in administrative procedure relating to admission of members, establishment of chapters, etc.

The report of the publicity committee urged that the Texas society undertake an educational campaign to impress upon the public the functions of the certified public accountant and the value of his services. The report was referred to the directors with instructions to take steps toward putting the programme into effect. The cam-

paign is to be conducted in the name of the society with no reference to individual members, and may consist of the insertion of monthly advertisements in fifteen newspapers of Texas.

The committee on education made a report on a survey conducted during the year in an effort to determine the general sentiment of accountants toward college graduates as staff members. The report stated that practically all accounting firms now regard university graduates as the best material for staff personnel.

A special committee on arbitration presented a resolution, which was adopted, placing the Texas society on record as favoring the principles of commercial arbitration and advocating the passage of an arbitration law in the state.

## REVIEWS

### J. H. STAGG—"CAPITAL STOCK AND SURPLUS"

Address delivered at a meeting of the Hotel Accountants Association, New York, November 23, 1928.

The speaker said that before the war the subject of capital stock and surplus would have been subject to little comment, but that no-par stock has brought about an entirely new condition, upon which volumes are being written.

The main idea of corporate existence, he said, was creation of an artificial personality which could sue or be sued in its own name without involving the joining of all the owners, as is necessary in a partnership.

Probably the earliest form of corporation was the organization of single ship companies divided into shares. Suits and liabilities as a rule were against the ship or perhaps against its cargoes. The great monopolistic trading companies were a development in the corporate type of company and the public-utility companies soon followed. Limited liability was not an invariable privilege of these corporations, unless their charters or articles of incorporation specifically provided it. History shows examples of disaster to innocent people because of their unlimited liability in companies only a few of whose shares they held.

It was the natural practice to issue shares for a fixed amount of money. Almost from the start there were special rights for owners of certain types of shares, frequently known as preferred stock. Shares of all kinds were invariably issued at par value and the company's balance-sheet showed clearly and distinctly that that amount was paid for them.

For stock of par value the capital investment should be shown simply by classification of each

type of stock indicating (1) total number of shares of each class authorized, with its corresponding par value shown as a memorandum and not in the general money columns; (2) number of shares issued with their corresponding par value extended into the money columns, after deducting therefrom any shares in the treasury which have been legally issued and re-acquired by the company.

Where shares were issued for a business as a going concern, the difference between the value of net tangible assets and the value of par stock issued against them needed consideration. The business might in the course of years have developed to an extent where it was earning a large amount on its original capital and the vendors scarcely desired to turn it over to the public for an amount equal to the value of the net tangible assets. It necessarily followed that in the case of a successful business there would be a substantial difference between net tangible assets and par value of stock issued therefor. In practical accounting all assets of definite value were set up on one hand and the liabilities and stock issued on the other. The difference between the two figures became a nominal asset, popularly known as goodwill. In practice, even where goodwill was represented by an entirely proper figure, there was a prejudice against showing it as such in the balance-sheet. In some cases, of course, this item consisted considerably of water. Consequently, public balance-sheets frequently showed current assets on the one hand and liabilities on the other, with an addition to assets of the combined amount of goodwill, land, buildings and in many cases general machinery, under the general heading of property acquired.

The speaker mentioned two questions involved in use of par-value stock. Preferred stock is usually callable at a price slightly higher than its par value, and the logical inference is that such stock would be redeemable at more than par in

case of liquidation. However, while the company is a going concern, preferred stock is usually stated on the balance-sheet at its par value, and even in the most conservative statements the difference between the par value and the callable figure has been indicated only by a parenthetical explanation or a footnote.

Cumulative dividends, which are generally assigned to preferred stock, should also be clearly explained on the balance-sheet, the speaker said, as at any given date there may be an obligation to preferred stockholders payable out of prospective earnings before any dividend may be paid common stockholders.

For many years it was illegal to issue stock at less than its par value and, therefore, directors often had to place ridiculous values on unproved patents, options, etc., in order to preserve a balance. In practice considerable quantities of the stock would be donated immediately either to the treasury or as bonuses to individuals financing the activities.

Par-value stock, the speaker said, served a useful purpose, was easily understood and introduced to the investing public the concept of corporations divided into shares.

No-par-value stock has the advantage of avoiding the psychological effect which often occurs when market values differ from par values. New York was the first state to legislate on the question of no-par stock. Other states soon followed its example and the practice of issuing stock of this kind is gaining in popularity with large and influential companies. The issuance of such shares offers certain improvements on the old methods, but the way of setting up figures in the accounts, particularly in published balance-sheets, still presents difficulties. Some companies have preferred stock of par value and common stock of no par value. In this case the preferred stock is treated on the balance-sheet in the usual way.

Some laws provide that stated capital may be named in a company's papers of incorporation, which apparently gives every advantage of par-value stock with none of its disadvantages, as it establishes a minimum of combined capital and surplus beyond which dividends can not be paid because they would encroach upon capital. When circumstances arise that make it desirable to reduce capital because of substantial losses, it is possible in some states to make the reduction readily without the necessity for calling in stock certificates to record the change. Stated capital is frequently below the value of the net assets, excluding nominal assets and costs of promotion and organization, so that in these cases there is a surplus immediately available. Where there is no stated capital the net value of assets represents value of the capital stock. In Illinois it appears from the law that it would be dangerous to pay dividends except out of earned surplus.

In stating capital in a company with no-par shares, the division of capital between preferred and common stock is questionable. Arbitrary subdivision does not seem to present any advantages. Where the capital has a stated value it is easy to distinguish surplus and to identify it as paid-in or earned. Where there is no stated value, net excess of assets over liabilities would be the capital.

The counsel of perfection for stating stock of no

par value would seem to be to treat it class by class, showing each type as a separate amount at the exact figure received for it. However, there are probably few cases in which this can be done.

With reference to methods of stating surplus in the balance-sheet, Mr. Staggs said that there were generally three main types of surplus: (1) capital surplus existing as a result of deliberate transference to a corporation in its formative state of net assets in excess of par value of stock issued therefor, or in excess of the stated value if no-par stock is in question; (2) surplus, usually also known as capital surplus, arising from revaluation of fixed assets at an increased figure; (3) ordinary operating surplus consisting of earnings accrued from operations of the company, less dividends paid. The availability of each kind of surplus for dividend depends largely on state laws, but it is desirable that this subdivision of surplus should be distinguished in any case. In corporations with par-value stock it is customary to show surplus clearly as a separate caption, but many companies with no-par shares group capital and surplus into one main caption with possible differentiation in subheadings. Frequently large companies show surplus accounts as a separate exhibit, similar to profit-and-loss account, and carry only one figure for surplus in the balance-sheet.

#### JACOB BENNETT—"INSURANCE BROKER-AGE ACCOUNTING"

Article published in the *Eastern Underwriter*, December 7, 1928.

The bookkeeping and accounting requirements of an insurance broker are far more involved than those of a merchant or manufacturer and contribute heavily to his overhead expenses, the writer says. A special feature of the broker's difficulty is the problem of determining the exact time when he actually earns his commission. A merchant or manufacturer computes profits at the time of sale to customer; the professional man earns his fee at the time when his service is rendered, but the insurance broker must decide whether he has earned commission at the time the policy is obtained or at sometime in the future. One great difficulty in accounting records of insurance brokers is the necessity for repetition of much of the same information on six or seven records. Besides the usual ledgers and books of account, the broker needs an expiration or renewal record, line card, premium and return-premium register. The regular books of account control the broker's financial relations with policyholders and agents or companies, and serve as a basis for controlling expenses. The other records control the insurance needs and the protection of his accounts in the present and future.

The basic record is the premium register, in which an entry is made for each policy and each change in the policy after it is originally issued. The information recorded includes date of entry, policy number, name of insurance company, policy dates—effective and expiration—name and address of assured, location of coverage, class and limits of coverage, gross premium, name of agent, net premium and commission.

Errors in the accounting records are expensive and it is often wise to employ high-priced assistants in the interests of eventual economy.

Because so much of the same information is copied from record to record, the making of as many entries as possible at one time, as may be done on specially prepared sets of forms by book-keeping machines, results in considerable saving. For instance, it has been found possible to make all the following records in the same operation: bill to the assured, copy of bill to the assured, entry in the customer's account, entry in agent's or

company's account, expiration record, summary or register of premium and return premiums. This plan can be varied to suit the exact needs of each brokerage office.

Accounting for commission earned may be based on the assumption that the actual earning takes place (1) at the time of entry of the policy in the premium register; (2) at the time of payment of premium by the assured to the broker; (3) at the time of payment of the net premium to the company or its agent. All three methods are in use.

## EMPLOYMENT EXCHANGE

In accordance with a request in the last *Bulletin* several firms have referred to the Institute staff assistants seeking employment whom the firms themselves were unable to engage. Some very desirable men have registered with the Institute in this way, and positions have been found for several of them.

During December the requests for staff accountants were far in excess of the number of registrants qualified to fill the positions open.

Among the applicants available at present are some members of the Institute who seem fitted for executive positions of more responsibility than those of regular staff assistants.

The following persons are among those now registered:

No. 4A—Woman, unmarried, age 36, associate American Institute of Accountants and C. P. A. Experience includes three years with New York public accounting firm and three years as assistant treasurer of New England manufacturing company. Education—high school, business college and university extension work. Salary commensurate with responsibilities.

No. 11A—An executive position either in public or private practice is wanted by a member of the American Institute of Accountants who is also a C. P. A. and a chartered accountant. Fifteen years' public accounting experience and 3 years as comptroller. Age 41. Salary subject to arrangement. Resides in New Jersey.

No. 13A—Accountant, age 38, with 11 years' public practice with well-known firms and on own account and with 5 years' experience as comptroller of a manufacturing company, desires

comptrollership of a private corporation or managership of a branch office of a public accounting firm. Member American Institute of Accountants and certified public accountant of New York and New Jersey.

No. 22A—Semi-senior accountant now in Hawaii wishes position in the United States. Age 30, married. Has had 2 years' experience in public accounting. Has also been cost accountant for agricultural company.

No. 23A—Senior accountant in Florida wishes position in another state. Age 37, high-school graduate. Six years' experience in public accounting and two years as privately employed auditor. Salary \$250 a month.

No. 30A—Member, American Institute of Accountants, C. P. A. Minnesota, age 42, with 10 years' public accounting experience, wishes position in Minneapolis, Chicago, or some other city. Recently sold his own practice in order to engage in outside activities. Now wishes to re-enter profession. Married, with dependents. No objection to travel. Salary subject to arrangement.

No. 34A—Member, American Institute of Accountants, C. P. A. of North Carolina and Incorporated Accountant of England, wishes executive accounting position with public accounting firm or private corporation, preferably in western North Carolina or Tennessee. Age 34, married. Thirteen years' public practice. No objection to travel.

No. 39A—Member, American Institute of Accountants, 40 years old, wishes position in public accounting or private concern with salary of at least \$5000. C. P. A. of New York, New Jersey and Pennsylvania. Twenty years' public practice. Prefers situation in vicinity of New York.

The Institute has not investigated statements submitted by applicants and can not accept responsibility for their accuracy.

Charles B. Couchman, New York, delivered an address entitled "Balance-sheets and operating statements" at a joint meeting of the Utica chapter, National Association of Cost Accountants, and the Utica

Association of Credit Men, on December 10th. He gave the same address at a meeting of the Pittsburgh chapter, National Association of Cost Accountants, on December 12th.



## HERE AND THERE

M. D. Bachrach & Co. and Adrian F. Sanderbeck announce the consolidation of their practices under the firm name of Bachrach, Sanderbeck & Co., with offices in the Farmers Bank building, Pittsburgh, Pennsylvania.

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Andrew H. Blass & Co., Law and Finance building, Pittsburgh, Pennsylvania, announce the admission of Robert B. Wolfe to membership in the firm.

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Howard F. Farrington, Robert J. Hyland, John E. Gregory, Samuel Copeland and C. Milton Clark announce the formation of a partnership under the firm name of Farrington, Hyland & Gregory, with offices in several cities in the state of New York and in Washington, D. C.

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J. E. Hutchinson, jr., announces the opening of an office in the Harvey Snider building, Wichita Falls, Texas.

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F. W. Lafrentz & Co. announce the admission of Reinhardt G. Jahn, Warren H. Keller and Rollin M. Hickey to partnership in the firm.

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R. C. Mounsey & Co., Seattle, Washington, announce the removal of their offices to 707 Securities building, Third avenue at Stewart street.

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Announcement has been made of the dissolution of the firm of Mucklow & Ford, Jacksonville, Florida, as of December 31, 1928.

Walter Mucklow will remain at 812-813 Barnett National Bank building and in addition to his general practice will give particular attention to consultative advice to accountants, attorneys and business men.

George H. Ford has joined the firm of Ford, Fisher, Boyd & Colley, which has opened offices at 810 Lynch building, Jacksonville.

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Price, Waterhouse & Co. announce the removal of their Detroit, Michigan, offices to 1946 Penobscot building.

Charles F. Rittenhouse & Company, 89 State street, Boston, announce that Clarence B. E. Rosen has been admitted to partnership in the firm.

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Rosenthaler, Bernard & Co., Detroit, Michigan, announce the removal of their offices to 2263 First National Bank building.

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George E. Satchell, San Francisco, announces the opening of branch offices at 210 A. G. Bartlett building, Los Angeles.

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Announcement has been made of the dissolution of the firm of Simmers, Adsit & Co. John A. Simmers and Edward H. Adsit will continue in practice separately, with offices at their present address, 215 West Seventh street, Los Angeles.

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Allen R. Smart & Co. announce that Joseph F. McCarthy has retired from membership in the firm.

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F. M. Weaver & Co., Kansas City, announce the removal of their offices to suite 210-218, Delmain building, 3 West Ninth street.

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Reynold E. Blight, Los Angeles, addressed the Sales Managers' Association, November 20th, on "Trends of business," and on November 28th he spoke before the Lions' club of Hollywood on the history of Thanksgiving day.

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Stanley G. H. Fitch, Boston, delivered an address entitled "Inventory control" at a meeting of the Boston branch of the National Metal Trade Association on November 7th.

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Charles F. Rittenhouse was guest and principal speaker at the December meeting of the Executives club of Boston. His subject was "Budgeting your business in 1929."

# Bulletin Supplement

January 15, 1929.

## To Members and Associates of the American Institute of Accountants:

The board of examiners has given consideration to applications for admission to the American Institute of Accountants. Thirteen applicants for admission took the written examinations in November and 4 passed, 2 were conditioned and 7 failed. The 4 successful are eligible for associate membership. Seven applicants for admission as members and 9 as associates were given credit for having already passed the Institute examinations for a C. P. A. certificate. Credit for having passed other examinations acceptable to the Institute was accorded 6 applicants for membership and 2 for associate membership. Two applicants for membership are recommended for election on the basis of oral examination. The board recommends the advancement of 4 associates to membership.

The following is a list of those recommended by the board of examiners for election:

### *For Advancement to Membership:*

Louis D. Kork, Portland, Oregon  
Thomas A. Mackenzie, New York  
Harry B. Mills, Los Angeles  
Jackson W. Smart, Chicago

### *For Admission as Members:*

Jay E. Bigham, Tampa  
Edward F. Chabot, Seattle  
William T. Chumney, San Antonio  
Harry B. Graham, Miami  
Henry C. Hawes, Chicago  
John F. Kerslake, Philadelphia  
Martin Kortjohn, New York  
Donald MacTavish, Los Angeles  
John H. McNichols, Chicago  
Armand V. McPhee, Chicago  
Charles R. Mather, San Juan, P. R.  
Joseph S. Schmidt, Philadelphia  
Leon E. Williams, Denver  
Seldon M. Wilson, San Francisco  
Frederick W. Wulfang, New York

### *For Admission as Associates:*

Elliott D. Adams, Knoxville, Tenn.  
Douglas B. Bagnell, Amarillo, Tex.  
Harry B. Bamesberger, Kansas City, Mo.  
Milner Brown, Chicago  
Edward R. Cotham, Little Rock, Ark.  
Lewis H. deBaun, New York  
Chauncey C. Flagg, Kansas City, Mo.  
Christopher Haworth, Boston  
Adolph W. Hebrank, St. Louis  
John W. Miller, Indianapolis  
Theodore G. Mohny, Detroit  
George A. R. Schuster, Kansas City, Mo.  
Joseph A. Turnbull, Boston  
Medford H. White, Wilmington, Del.  
William H. Willis, New York

These applicants do not become members (or associates) until they are elected by the council, which is voting by mail ballot. If protest is to be made against the election of any applicant on the list, it should reach the office of the Institute by February 1st.

A. P. RICHARDSON, *Secretary*.

# BULLETIN

OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS

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FEBRUARY 15, 1929

SERIES B, No. 58

## Election of Applicants

Following a recommendation of the board of examiners and vote of council by mail ballot, the president of the American Institute of Accountants, in the absence of protest, declared the following applicants elected to membership or associate membership as of February 1, 1929:

### *Advanced to Membership:*

Louis D. Kork, Portland, Oregon  
Thomas A. Mackenzie, New York  
Harry B. Mills, Los Angeles  
Jackson W. Smart, Chicago

### *Admitted as Members:*

Jay E. Bigham, Tampa  
Edward F. Chabot, Seattle  
William T. Chumney, San Antonio  
Harry B. Graham, Miami  
Henry C. Hawes, Chicago  
John F. Kerslake, Philadelphia  
Martin Kortjohn, New York  
Donald MacTavish, Los Angeles  
John H. McNichols, Chicago  
Armand V. McPhee, Chicago  
Charles R. Mather, San Juan, P. R.  
Joseph S. Schmidt, Philadelphia  
Leon E. Williams, Denver  
Seldon M. Wilson, San Francisco  
Frederick W. Wulfer, New York

### *Admitted as Associates:*

Elliott D. Adams, Knoxville, Tenn.  
Douglas B. Bagnell, Amarillo, Tex.  
Harry B. Barnesberger, Kansas City, Mo.  
Milner Brown, Chicago  
Edward R. Cotham, Little Rock, Ark.  
Lewis H. deBaun, New York  
Chauncey C. Flagg, Kansas City, Mo.  
Christopher Haworth, Boston  
Adolph W. Hebrank, St. Louis  
John W. Miller, Indianapolis  
Theodore G. Mohny, Detroit  
George A. R. Schuster, Kansas City, Mo.  
Joseph A. Turnbull, Boston  
Medford H. White, Wilmington, Del.  
William H. Willis, New York

## Accountants Assist Federal Judge in Bankruptcy Examinations

Public accountants will occupy the bench with Judge William Clark, of the United States district court at Newark, New Jersey, in the weekly examinations of applicants for discharges in bankruptcy during the next few months. Judge Clark solicited the assistance of accountants in combating abuses of the bankruptcy laws and his request was presented to the Society of Certified Public Accountants of the State of New Jersey.

As prompt action was necessary, members of the board of trustees were requested to volunteer their services in an advisory capacity, and arrangements were made to have the first examination with an accountant present on January 21st.

The innovation is declared to be a marked success. The accountant, by examining books and accounts presented and by suggesting questions concerning administration of the petitioners' affairs, is able to facilitate the disclosure of information bearing directly on the good faith and validity of a petition for discharge.

## Authority of Courts to Review Tax Appeals Upheld

The circuit court of appeals or the United States supreme court has jurisdiction to revise findings of the board of tax appeals, according to a brief prepared by the committee on taxation of the American Bar Association, filed with the supreme court. The committee participated as "friend of the court" in the case of the *Old Colony Trust Co. v. Commissioner of internal revenue*

and the supreme court requested the opinion of the bar association.

### **American Association of Accounting Instructors**

At the annual meeting of the American Association of University Instructors in Accounting held at Chicago, December 27 and 28, 1928, the following officers were elected: president, David H. Himmelblau; first vice-president, A. H. Rosenkamppf; second vice-president, Russell A. Stevenson; third vice-president, James P. Adams; secretary-treasurer, Howard C. Greer.

The programme for the meeting was printed in the Institute *Bulletin* for December 15th.

### **Change in Chartered Accountants Examinations**

At a recent meeting of the council of the Institute of Chartered Accountants in England and Wales it was resolved, pursuant to a report of the examination committee, that after May, 1930, examinations in actuarial science will be omitted from the syllabus of the final as an additional subject.

### **Society of Incorporated Accountants**

With a view to strengthening district societies the council of the Society of Incorporated Accountants and Auditors has adopted a by-law providing that every candidate shall, within three months after his preliminary examination or after obtaining exemption from it, become a member of the students' section of a branch or district society or of an Incorporated Accountants Students' Society.

### **Accountants' Club of America**

New quarters have been obtained for the Accountants' Club of America, which since its establishment has occupied rooms in the Hotel Belmont, New York. Portions of two floors have been obtained in the Montclair hotel, Lexington avenue and 49th street, to which the club will move about March 1, 1929. Many new facilities will be available in the new quarters.

### **Hotel Accountants Association**

A bulletin issued by the Hotel Accountants Association of New York shows that

since its organization in 1926 thirty-one technical subjects have been discussed at its meetings. Public accountants have delivered addresses on seven of these subjects and the others have been discussed by employees of hotels. The bulletin contains an offer to send to interested persons copies of the minutes of meetings at which these subjects were discussed.

The association has appointed eleven committees for the year 1929 on the following subjects: accounting simplification, admissions, attendance, auditing, depreciation, entertainment, legislation, programme, publication and library, statistics and technical. Public accountants form a large proportion of the personnel of these committees.

### **Preparing the 1928 Income-tax Return**

At a meeting of the Philadelphia chapter, National Association of Cost Accountants, on January 18th, George F. Herde of Pittsburgh directed attention to special features of the income-tax laws which should be borne in mind when preparing returns for the past year. He specifically mentioned the following points:

Earned-income allowance has increased to \$30,000 from the \$20,000 allowance in the 1926 act. Tax rates on individuals remain the same. Net income is subject to the normal tax of  $1\frac{1}{2}\%$ , 3% and 5% with the same surtax rates running from one to twenty per cent. as under the terms of the 1926 act.

Under the 1928 act the rate for corporations is reduced to 12% and the credit allowance for corporations earning \$25,000 or less is increased from \$2,000 to \$3,000.

Emphasis was laid on the applicability of both the 1926 and 1928 acts, each governing in certain cases.

Consolidated returns by affiliated corporations are permitted by the 1928 act for 1929 and for subsequent years. For the year 1928 consolidated returns must be filed under the conditions of the 1926 law.

The right of certain taxpayers to request distribution or apportionment of gains, profit, income, deductions, etc., among related businesses is not included in the 1928 act. The commissioner is still empowered to make such apportionment but the taxpayer has no longer the privilege to request specific procedure.

Certain amendments to the 1926 act affecting affiliated corporations, statute of limitations, extension of time for payment of deficiencies, requests for prompt assessment, suspension of the running of the statute of limitations, waivers and over-payments are retroactive to the date of passage, February 26, 1926.

### **Harvard to Continue Summer Courses In Business**

Announcement has been made that the Harvard graduate school of business administration will again hold special sessions for business executives during the summer of 1929. Courses will be offered in the following subjects: interpretation of financial statements, public-utility management and economics, railway transportation, bank management, sales management, retail distribution and trust management. Classes will be limited to 50 men each and will be held four hours a day from July 1st to August 10th.

The plan for special sessions for business men was instituted last year and was sufficiently successful to warrant repetition.

### **Attempts to Raise Standards of Legal Profession**

As concrete results of recent agitation to raise ethical standards among lawyers several bills have been introduced in the legislature of New York state relating to professional activities of attorneys and counsellors. These bills would, among other things, prohibit solicitation of demands or claims; would require lawyers to keep books of account, showing their receipts from practice, and would limit the amount of contingent fees which attorneys may accept in certain circumstances to  $33\frac{1}{3}$  per cent. of the amount recovered.

At its mid-winter meeting a committee of the New Jersey bar association stated its belief that persons were being admitted to the practice of law "who lack the proper background of education, training and culture and who do not possess the character to meet the obligations of professional legal service."

The association adopted a resolution recommending that a committee be appointed to apply to the supreme court for a public

hearing at which the following proposals may be presented: That the highest standards of preliminary education be required, so that each beginning law student shall have had two years of college work or its equivalent; that consideration be given to the advisability of allowing credit for fragmentary time spent in clerkship; that the moral character and fitness of applicants receive thorough investigation, and that bar examinations be more comprehensive.

Special mention was made of the desirability of insistence on an adequate knowledge of English by applicants.

### **Public Accountant Appointed to State Office**

Walter S. Morgan, a certified public accountant, has recently been appointed comptroller of the Commonwealth of Massachusetts.

### **Special Summer Course for Tourists**

The Gresham School of Economics, London, has instituted a special course exclusively for citizens of the United States and Canada visiting England during July and August, 1929. Students admitted to the courses must be over 16 years of age and must be regularly engaged in study at a university or college in the United States or Canada.

Three courses of study will be offered, including the following subjects: the English banking system, public finances of the kingdom, European markets, joint stock companies and corporations and foreign exchange.

### **Unclaimed Bank Accounts May Revert to State**

A bill recently introduced into the legislature of New York provides that savings banks, trust corporations or other institutions of deposit shall report periodically to the state comptroller names of depositors whose credits have not changed for a certain number of years.

Announcements based on these reports would be published and if the dormant accounts remained unclaimed they would escheat to the state.

## **Wholesalers Said to Lose on Majority of Orders**

T. M. McNeice of the Union Carbide and Carbon Corporation recently stated that wholesalers lose money on 70 per cent. of their orders. The statement was made at a

meeting of the New York chapter of the National Association of Cost Accountants.

The fact that sales managers are intent upon increasing the volume of sales with little regard for cost of sales and distribution is largely responsible for the large amount of unprofitable business, Mr. McNeice said.

## **COMMITTEE ACTIVITIES**

### **Committee on State Legislation**

As the time for convention of state legislatures approached, the Institute's committee on state legislation received numerous requests from accountants in different parts of the country for information and advice concerning accountancy laws in the process of construction.

Copies of the Institute's model C. P. A. bill which was approved in January, 1926, have been distributed widely and in many cases provisions of the model bill have been incorporated in measures to be proposed as laws.

One of the questions which have been brought to the attention of the committee relates to the advisability of omitting detail from the requirements included in the C. P. A. law, in order that the work of the board of accountancy may not be hampered by specific provisions such as the hours at which examinations must take place, the exact subjects which must be included, etc. The committee believes that the law should be confined to broad fundamental provisions and that the details of administration should be left to the discretion of the state board.

Correspondence has also taken place on the question of permitting state employees and employees of the bureau of internal revenue to take examination for the C. P. A. certificate. The committee believes that while the duties of such employees in certain cases demand a knowledge of the theory of accounting, their position differs from that of a professional public accountant. As the C. P. A. certificate is evidence of qualification to practise as a professional public accountant it is the committee's opinion that the certificate should not be granted to employees of state or federal government.

### **Special Committee on Coöperation with Arbitration Associations**

The division of education of the American Arbitration Association has been active in assisting the passage of legislation to make commercial arbitration agreements valid and enforceable. The Institute's special committee on coöperation with arbitration associations has been helping the officers of the arbitration association to obtain the coöperation of accountants.

The procedure of the association involves requests for support from accountants, lawyers and influential business men in various states where there are as yet no arbitration laws.

### **Special Committee on Coöperation with Bankers**

The accounting treatment of special capital of a copartnership has been the subject of correspondence between the Institute's special committee on coöperation with bankers and the committee on coöperation with public accountants of the Robert Morris Associates. The discussion originated with a letter from the chairman of the bankers' committee on December 7, 1928, the text of which is as follows:

"May I have a ruling upon the following point?

"If the partnership capital of a firm includes a certain amount of special capital, should this special capital be segregated into a separate item with its due date, or is it entirely proper to bulk this in the main item of 'Partners' capital accounts?'"

The chairman of the Institute's committee sent the following reply:

"I have your letter inquiring whether special capital should be shown as a separate item in the partnership balance-sheet. I am not sure that it is practicable to lay down a universal rule on this point, but it does not seem to me that from the standpoint of the banks it is very material. After

all, the capital of a partnership is not a very significant figure if the partners have themselves substantial other interests, since their liability for debts is not limited to their nominal capital in the partnership.

"Clearly, any institution granting credit to a partnership should ascertain the nature of the partnership agreement, and, if there are special partners, the precise character of the arrangement with them. For this information they would naturally rely on sources other than the balance-sheet. I think we must guard against any disposition on the part of banks to look to the balance-sheet for information which they ought to secure in more complete and detailed form from other sources.

"As regards a particular case, it might be that the circumstances would require the statement of the special capital as a separate item, but I think each case would stand on its own merits."

The following amplification of the question was sent by the bankers' committee on January 2nd:

"Thank you for your letter of December 29th, with ruling on the segregation of special capital. You state in one place: 'After all, the capital of a partnership is not a very significant figure if the partners have themselves substantial other interests, since their liability for debts is not limited to their nominal capital in the partnership.'

"That, however, does not apply to the special partner who is liable only to the extent of his special capital. It seems to me, therefore, that special capital with a definite maturity date is to a certain extent a liability. For instance, let's assume that you audited the books of a concern as of November 30th; that this concern had bills payable none of which matured, we will say, short of three months, whereas a substantial part of this capital was special capital which matured on December 30th. This would certainly be a very material consideration when loaning money to the firm. It is for that reason, therefore, that I felt that good accounting practice required a segregation should be made between general capital and special capital, and, furthermore, that it should be definitely stated when the special capital expires.

"Would you mind giving this further consideration from this angle and let me know whether it alters your ruling in any way? I ask this because the question has been put up to me and I must pass along your conclusions."

This letter was answered as follows:

"I have your letter of January 2nd. My understanding is that if a firm having special capital with a definite maturity date should borrow money shortly before that date the special capital could not be withdrawn even at maturity if the assets would then be insufficient to meet the debts.

"The general point you make is not, I think, limited to special capital. For instance, in many partnerships individual partners have the right to retire on certain specific dates. If they do so retire, their capital becomes as between them and the other partners a liability of the partnership, but as between them and creditors of the firm it remains

capital until all the liabilities incurred before their retirement have been discharged.

"I still think that the real source on which the banks should rely for information regarding the capital of a firm should be something other than the balance-sheet, which can not possibly reflect all the conditions attaching to the capital of a large firm. The point is well covered in the federal reserve bank form.

"I also think it would not be wise to make a cast-iron rule that the maturity date of special capital must be shown.

"This letter has been submitted to and approved by a majority of our committee."

In addition to the foregoing correspondence the Robert Morris Associates committee subsequently raised a question concerning balance-sheets giving effect to transactions to be effected subsequent to the date of the statement itself. The question was raised in the following letter from the chairman of the bankers' committee, dated January 10th:

"Has your committee had any occasion to change the requirements listed in your report to the council, September 10, 1923, respecting 'giving effect' balance-sheets, particularly the recommendation bearing on the situation where the subsequent transactions are the subject of a contract or agreement between the company and bankers or other parties? I note that in the sample certificate reference is made to the fact that such an agreement has been examined by the accountants.

"The reason I bring this up now is that a number of instances have come to my attention recently where no reference was made to any agreement."

The chairman of the Institute's committee replied as follows:

"I am in receipt of your letter of January 10th asking if there has been any modification regarding the reference to agreements in accountants' certificates appended to balance-sheets giving effect to transactions subsequent to the date of the balance-sheet, and in answer to your question the reply is 'no.'

"It was and still is the recommendation of our committee that such balance-sheets should be predicated only upon the books and accounts of the corporation at a specific date and subsequent transactions which are the subject of a definite contract or agreement between the company and bankers or parties who are responsible and able to carry out their engagement. The form of certificate which our committee recommended referred specifically to the books and accounts and to such an agreement, and our committee feels that the accountant in his certificate should state upon what evidence his certificate to the hypothetical balance-sheet is based.

"A number of accountants' certificates have recently appeared upon balance-sheets giving effect to transactions subsequent to the date of the balance-sheet where the certificate does not state from what sources the balance-sheet has been prepared. Our committee certainly does not regard such instances as typical of the best practice."

## STATE LEGISLATION

### General Survey

The expected volume of proposed accountancy legislation seems sure to manifest itself this year. The legislatures of 41 states convened in January and in 18 of them bills affecting accountancy more or less directly have already been introduced. Many of these do not deal with regulation of the profession, but provide for appointment of public accountants for the audit of various governmental subdivisions or for other matters chiefly of local significance.

In the following states, however, bills concerned with the activities of the profession in general have been introduced: California, Colorado, Indiana, New York, Oklahoma, Oregon, Washington and West Virginia. In the first three states only minor amendments are under consideration. In New York a bill providing for more strict control over the activities of certified public accountants has been proposed. The requirements for certification and the general status of the profession would not be substantially changed. In Oklahoma an attempt is being made to replace the present restrictive law, with its peculiar classifications of "certified municipal accountant," "certified commercial accountant" and "certified public accountant," by a non-restrictive act similar to those of New York and Pennsylvania. The Oregon, Washington and West Virginia bills are based on the so-called "two-class" system of regulation.

### Summaries

#### CALIFORNIA

Senate bill No. 44 in California would amend the accountancy law of the state to provide for the creation of an "accountancy fund" in the office of the state treasurer. Any unencumbered balance of money and all receipts under provisions of the accountancy law would be remitted to the accountancy fund from which expenditure might be made for necessary expenses incurred under the law.

Senate constitutional amendment No. 22 would repeal the section of the state con-

stitution relating to the duty of corporations to maintain an office in the state and to keep therein certain books and records.

Three current bills deal with uniform accounting. They are house bill No. 706, senate bill No. 488 and senate bill No. 701, which provide, respectively, for uniform accounting for reclamation districts which have outstanding bond issues; uniform cost accounting in junior colleges; and a uniform system of accounts in the department of public works.

#### COLORADO

It is reported that two bills were introduced in the legislature of Colorado on January 16th, at the instance of the Colorado Society of Certified Public Accountants, to include certified public accountants among those to whom the right of privileged communication is extended and among those exempt from jury service upon request.

#### CONNECTICUT

Town auditors might be replaced by public accountants, under Connecticut house bill No. 106, by vote of town meeting.

#### INDIANA

Senate bill No. 25, introduced in the Indiana legislature January 18th, would give credit to candidates for the C. P. A. certificate who had passed two subjects of the examination and had satisfied other requirements for the certificate prior to passage of a law in 1927 which stipulated certain new requirements for the certificate not theretofore in effect. Apparently it is intended that the 1927 amendment, including among other things a residence requirement, shall not affect candidates who prior to passage of the amendment had complied with all previous requirements except passing one subject of the examination.

Finance companies not organized under the laws of Indiana would be required, under house bill No. 154, to submit annual financial reports to the auditor of state, and to pay a tax of one per cent. of the gross amount of business transacted with residents of the state.



## *Bulletin of American Institute of Accountants*

### KANSAS

House bill No. 26 in Kansas provides that certified public accountants shall be appointed by district judges to perform audits of county offices. The bill was reported favorably and passed the house on January 22nd.

### MAINE

House bill No. 608 provides for uniform accounting in cities, towns and village corporations of Maine.

### MASSACHUSETTS

Three tax bills in the Massachusetts legislature, house bills No. 439, 440 and 441, provide, respectively, for deductions from business income tax on account of stock in trade and other tangible property used in the profession or business of the taxpayer; deduction of charitable contributions and gifts, and deduction of certain losses sustained on intangible personal property.

### MICHIGAN

Michigan senate bill No. 19 would amend an act establishing a uniform system of accounting in departments, offices and institutions of the state government. It also deals with annual financial reports of such government units.

### NEW JERSEY

Senate joint resolution No. 5, introduced in the New Jersey legislature January 21, 1929, would create a state audit and finance commission to collaborate with the governor in conducting audits of state finances and possibly to recommend a comprehensive system of accounts for the state treasury. Members of the commission would serve without pay, but would be authorized to employ accounting and clerical assistants. Fifteen thousand dollars might be appropriated for expenses of the commission, under the resolution.

Senate joint resolution No. 6, introduced on the same date, would empower the governor to appoint accountants to audit accounts of state departments, officers, etc., and to devise a more efficient system of accounting therefor. Fifty thousand dol-

lars would be appropriated to carry out the provisions of the resolution.

Both resolutions were referred to the committee on judiciary.

### NEW YORK

An accountancy bill prepared under the auspices of the New York State Society of Certified Public Accountants has been introduced in the state legislature as senate bill No. 248 and assembly bill No. 375. The proposed law would not alter the basic status of the profession in New York, but is designed to provide close supervision over the activities of certified public accountants in the state and to effect changes in administrative and disciplinary procedure which it is believed will strengthen the profession.

The new bill would not immediately necessitate any changes in the requirements of candidates for the C. P. A. certificate or in reciprocal provisions as they exist at present.

However, an amendment added after the introduction of the bill provides that after January 1, 1938, every candidate for the C. P. A. certificate would be required to have had preliminary education necessary to matriculation at a recognized school of accountancy, and, in addition, to have studied accountancy for at least four years in a recognized school.

A new body, known as a council on accountancy, might at any time after the passage of the bill be appointed by the regents to advise with all proper authorities on matters coming within the purview of the law. This council would be constituted of certified public accountants eminent in the profession, who would serve without compensation.

Illegal practice as a certified public accountant is regarded in the bill as a misdemeanor and detailed provisions for penalties and for their enforcement are included.

A committee on grievances would also be appointed by the regents under the bill. This is another innovation. The committee would consist of ten members, each of whom had been a certified public accountant for ten years prior to his appointment. They would serve without compensation. This committee would have jurisdiction to hear charges against certified public accountants for fraud, deceit or gross negligence in the

public practice of accountancy, and the regents would be empowered, on the basis of the committee's findings, to censure the offender or to suspend or revoke his certificate. The method of procedure before this committee is prescribed in the bill, and a provision is included which would permit a review of the determination by the appellate division of the supreme court by certiorari.

Another feature of the bill is its authorization of copartnerships to be registered and to describe themselves as certified public accountants if each partner within the state be a certified public accountant of New York and if all partners within the United States be certified in one or more of the states.

The bill also proposes an increase in membership of the board of certified public accountant examiners to at least five, with the possibility of additional appointments by the regents. Appointment of clerks to assist the board would be authorized.

The bill has been referred to the ways and means committee of the assembly and to the senate committee on public education.

#### NORTH CAROLINA

The budget revenue bill of North Carolina (house bill No. 44, senate bill No. 37) provides that certified public accountants, as well as other professional practitioners, must pay a licence fee of \$25 for the privilege of practice. Public accountants, not certified, would be required to pay a licence fee of \$10.

#### OKLAHOMA

The Oklahoma Society of Certified Public Accountants has caused a bill to be introduced in the legislature, under the designation house bill No. 208. The bill is a non-restrictive measure, generally similar to the accountancy laws of New York and Pennsylvania.

#### OREGON

A bill for the regulation of the accountancy profession has been drafted by the Oregon State Society of Certified Public Accountants and introduced in the legislature under the designation house bill No. 267.

The bill provides for the two-class system of regulation, requiring registration of public

accountants as well as certified public accountants. It includes a privileged-communication clause and provides that an accountant's working papers shall be his property.

House bill No. 144 would empower the secretary of state to employ accountants to conduct audits of accounts of state departments, institutions, etc., at least annually.

House bill No. 238 prescribes uniform accounting for municipalities, and house bill No. 291 provides compulsory audit for all state institutions.

#### PENNSYLVANIA

Senate bill No. 179 in Pennsylvania provides that the auditor general of the state have sole and exclusive power in conducting audits of the accounts of the commonwealth and of its various departments, boards, commissions and agencies.

#### TEXAS

House bill No. 19 provides that every person, firm or corporation doing business in Texas and subject to any state tax on sales or gross receipts shall keep complete records of transactions. Such records would be subject at all times to inspection by the attorney general or the state comptroller.

A bill to provide for audits of the accounts of certain cities and towns in Texas has been proposed in the state senate and has been given the number 203. Auditors would be appointed by district judges, according to the bill.

#### UTAH

House bill No. 3 in Utah deals with preparation and publication of reports of financial condition of counties.

#### WASHINGTON

A regulatory bill of the "two-class" type was introduced in the Washington legislature on January 24th, under the designation of senate bill No. 94. It is closely modeled after laws of the same type which are now in effect. One distinctive feature is the recognition of employees of the bureau of internal revenue or of the treasury de-

partment and of accountants employed by the state of Washington, who would be permitted to register as public accountants under the specified conditions. Candidates for the C. P. A. certificate would be required to present evidence of prescribed experience and qualifications and to pass an examination. A requirement that the board of accountancy adopt a code of ethics and a privileged-communication clause are also included in the bill. Annual registration for both certified public accountants and public accountants is also stipulated.

#### WEST VIRGINIA

An accountancy bill of the two-class type, supported by the West Virginia Society of Certified Public Accountants, was introduced in the West Virginia legislature on January 16th. It is known as house bill No. 45. It provides for registration of public accountants subject to certain restrictions, within a specified time, and states requirements for the C. P. A. certificate. Annual registration of both classes of practitioners would be necessary under the bill.

### STATE BOARDS OF ACCOUNTANCY

#### California

George M. Thompson has been appointed by Governor Young of California to fill the vacancy on the state board of accountancy caused by the resignation of Reynold E. Blight.

#### Massachusetts

Pitt W. Danforth has been appointed a member of the board of registration of certified public accountants in Massachusetts.

He succeeds Edwin L. Pride, whose term has expired.

#### Washington

Twenty-six candidates tried the C. P. A. examinations of the state of Washington, November 15 and 16, 1928. Nineteen of the candidates failed. Those successful are as follows: William M. Black, Andrew Blomquist, Harold A. Jones, George A. Reeves, Robert H. Ross, Charles L. Stickney, jr. and A. F. Talbott.

### NEWS OF LOCAL SOCIETIES

#### California State Society of Certified Public Accountants

##### LOS ANGELES CHAPTER

The Los Angeles chapter of the California State Society of Certified Public Accountants held its regular monthly meeting at the Commercial club of Southern California, January 14th. Following dinner and the transaction of routine business, the members present inspected an exhibit of modern business methods and equipment.

The February meeting of the chapter was held at the Los Angeles athletic club on February 11th. Several guests from the San Francisco chapter were present, including Norman L. McLaren, president of the society, and John R. Ruckstell, past presi-

dent of the American Institute of Accountants. A proposed new state tax bill was the subject of discussion, which was led by Reynold E. Blight.

##### SAN FRANCISCO CHAPTER

"Consolidated balance-sheets" was the subject of discussion of the San Francisco chapter, January 7th, at the Engineers' club. B. D. Mattingly read a paper on the subject which served as a basis for general discussion.

#### Pamphlet on Budgets Published by Indiana Association

Budgets are the subject of the fourth bulletin issued this year by the public-affairs committee of the Indiana Association

of Certified Public Accountants. The bulletin briefly defines a budget as "a coördinated plan based on past experience or scientific standards which forecasts a satisfactory result of operations during a given period of time, thereby aiding to produce a profit which should be in accordance with the normal growth of the business, indicating whereby savings may be made in costs and expenses."

Ordinarily, it is said, the budget may be divided into three coördinated parts: the sales budget, the financial budget and the control budget. The purposes of each are described in some detail.

### **Inventory Discussed at Maryland Association Meeting**

At a meeting of the Maryland Association of Certified Public Accountants at the new Lord Baltimore hotel, Baltimore, on January 8th, Robert Iglauer read a paper entitled "Organizing for inventories." He discussed the necessity for planning inventory well in advance and for the organization of a temporary staff to conduct the various tasks. He then described in detail the actual programme and methods of inventory in a typical concern. The paper was followed by general discussion.

The February meeting of the Maryland Association took place at the Hotel Emerson, Baltimore, on February 12th.

Julian A. Jenkel, secretary of the society, delivered an address on "Statistics and accounting" which was followed by general discussion.

### **Missouri Society of Certified Public Accountants**

#### **ST. LOUIS CHAPTER**

A joint meeting of the St. Louis chapters of the Robert Morris Associates and the Missouri Society of Certified Public Accountants was held January 22nd. Following a dinner at the Missouri Athletic Association, William Mayors, of the accountants' society, spoke on "Accounting practice in inventory verification". His address was the subject of remarks by Albert T. Wagenfuehr of the Boatmen's National Bank. "Phraseology in auditor's certificate" was discussed by John M. Neumayer, an accountant, and by O. A. Row-

land of the Robert Morris Associates. John J. Lang of the Missouri society and W. A. Gordon, one of the bankers, spoke on "Accounting terminology."

### **Structural Amendments in New York Society**

On January 17th, the New York State Society of Certified Public Accountants filed in the offices of the secretary of state and of the clerk of New York county a proposal to amend its certificate of incorporation. The amended certificate has been approved and increases the purposes and powers of the society by the following provisions:

To cultivate, promote and disseminate knowledge and information concerning accountancy and subjects related thereto; to establish and maintain high standards of integrity, honor and character among certified public accountants; to furnish information regarding accountancy and the practice and methods thereof to its members, and to other persons interested therein, and to the general public; to protect the interests of its members and of the general public with respect to the practice of accountancy; to promote reforms in the law; to provide lectures, and to cause the publication of articles, relating to accountancy and the practice and methods thereof; to correspond and hold relations with other organizations of accountants, both within and without the United States of America; to establish and maintain a library, and reading rooms, meeting rooms and social rooms for the use of its members; to promote social intercourse among its own members and between its own members and the members of other organizations of accountants and other persons interested in accountancy or related subjects; and to do any and all things which shall be lawful and appropriate in furtherance of any of the purposes hereinbefore expressed.

The amendatory certificate increases the number of directors from 5 to 17.

A change in the time of annual meeting from the second Monday of February to the second Monday of May is also included.

Supplementing these changes in its corporate powers the society has submitted to members a revised draft of by-laws which it was proposed to substitute for the constitution and by-laws in effect. At a meeting of the society on February 11th the new by-laws were adopted. They make no significant changes in the structure of the organization but are concerned chiefly with the elimination of ambiguity and with minor administrative features. For example, in the new document voting power is specifically vested only

in members. Junior members and honorary members shall not vote. The article dealing with the requirements for membership, conditions under which membership may be terminated, resignations, expulsions, suspensions, etc., has been rewritten in the interest of clarity. Among other matters which received attention are duties of officers, provision for a budget, membership of the nomination committee, appointment of committees, etc.

#### DIRECTORY ISSUED

The demand for a list of members of the New York State Society of Certified Public Accountants from business men, bankers and credit men has led to the issuance of a pamphlet containing the names, firm affilia-

tions and addresses of members of the society. A brief introduction describes the significance of membership in the society and of the C. P. A. certificate.

### **Pennsylvania Institute of Certified Public Accountants**

#### PITTSBURGH CHAPTER

At a meeting of the Pittsburgh chapter, Pennsylvania Institute of Certified Public Accountants, on January 31st, at the Keystone athletic club, Pittsburgh, Harvey M. Watkins spoke on "The sub-standard man." Certified public accountants who received certificates as a result of the 1928 examinations were guests at the meeting.

## **REVIEWS**

### **HENRY B. FERNALD—"TAXATION OF INCOME AND GAINS FROM SECURITIES"**

Address delivered at the Thirty-first Annual Convention of the American Mining Congress, Washington, D. C., December 6, 1928.

The speaker opened his address by stating as basic theories of taxation: uniformity and equity in imposing the tax; certainty and definiteness of determination; promptness and finality of settlements, and selection of proper subject, methods and rates of taxation. There is necessarily conflict between these theories, which to some extent influences taxation of income and gains from securities—a problem of great complexity.

Corporations, once regarded with suspicion, are now recognized as a natural form of organization and their securities are regarded as desirable and proper investments. However, transactions in corporate securities are unavoidably varied and complicated. The difficulty in justly taxing such transactions is partly the government's fault and partly the taxpayer's because of his ignorance of the law and his consequent actions which may result in unnecessary liability.

Mr. Fernald proceeded to outline the fundamental theory of the present federal income-tax law effective under the constitutional amendment of 1913 and applying only to income, which has been defined by the supreme court as "the gain derived from capital or from labor or from both combined, provided it be understood to include profit gain through a sale or conversion of capital assets. . . .," and, later, "... not a gain accruing to capital; not a growth or increment of value in the investment, but a gain, a profit, something of exchangeable value, proceeding from the property severed from

the capital, however invested or employed and coming in, being 'derived'—that is, received or drawn by the recipient (the taxpayer) for his separate use, benefit and disposal—that is income derived from property. Nothing else answers the description."

The law begins with the general premise that the entire net income of every individual or corporation is subject to tax, Mr. Fernald said, and that such net income includes all interest, dividends and other form of income from securities, together with the entire amount of gain or profits derived from their sale or other disposition. However, it is immediately necessary to consider a large number of modifications and exceptions which have been made in recognition of the fact that the full exercise of the general theory would be unjust in many cases. These exceptions are, to some extent, general, as in the provision that dividends from domestic corporations shall be exempt from normal tax, or in the exemption of interest on the obligations of states, on federal farm loan securities and, to a limited extent, on obligations of the United States.

On the other hand certain exceptions are specific, excluding from taxable income the results of certain transactions on the basis of pure technicalities; that is, certain types of transactions might technically be interpreted as giving rise to taxable gain or deductible loss in accordance with the terms of the law, but it is considered that such transactions are probably mere formalities, not yielding income in themselves. Naturally these technical provisions have the common weakness of failing to give their benefit to some transactions which justly should be included and by giving benefit to other transactions which properly are not entitled to it. The speaker gave some illustrations of the inequities which may occur under the so-called reorganization sections of the law.

The following four questions were offered as the chief problems with which the federal income-tax law was designed to deal: (1) What is to be taxed? (2) When it is to be taxed? (3) To whom it is to be taxed? (4) The rate of tax to be paid?

1. What is to be taxed is all income within the constitutional definition with the few exceptions listed in the law. The exceptions are principally tax-exempt interest on government securities, income of charitable organizations, income which accrues prior to March 1, 1913, and income which has already been subject to inheritance taxation. Most of the other items of so-called exemptions are not true income but merely recovery of expense or loss.

2. When income is to be taxed is an especially difficult question. The general rule is that taxable income arises when it is received by or accrues to the taxpayer from property or property right different from that which he previously had. The meaning of "accrual" is practically impossible to determine, but it might be said generally to be the arising of a right to receive or of an obligation to pay as distinct from actual receipt or actual payment.

The differences which may exist between a receipt and an accrual basis are not usually of primary importance, Mr. Fernald said. A few days' difference may occasionally have a substantial effect on the tax, if it would assign a transaction to one year instead of another, but the more important question is when something is received of such a nature and in such a manner that its receipt gives rise to taxable income.

3. To whom is it to be taxed? In general, the tax on income is to be paid by the person who receives it, Mr. Fernald said. In the majority of cases it is easy to determine the recipient, but inasmuch as the law recognizes as separate taxable entities the individual, the estate or trust, and the corporation, there is opportunity for confusion. The corporation particularly presents complications. The law recognizes to a certain extent the stockholder's interest in the corporation, in so far as it exempts him from normal tax on the dividends he receives from earnings already subject to tax in the corporation. The treatment of a corporation as a separate entity is important and it is responsible for technicalities of corporate taxation resulting in liabilities in some cases that might be avoided by different mechanical procedure.

4. The rate of tax to be paid. Most of the complications would disappear if a single flat rate of tax applicable to income whenever and however received were in effect. However, different rates apply to individuals or trusts or estates and to corporations. Rate of exemption also varies and the theory of ability to pay, resulting in graduated tax rates on individuals is another stumbling block.

Interest, dividends and gains on sale or other disposition are the forms in which security owners may derive taxable income from their holdings.

Interest is generally fully taxable at full normal and surtax rates when it is received or when it accrues. The principal exception is the exemption of interest on government bonds.

Dividends are considered by the law to be distributions to stockholders out of earnings or profits accumulated after February 28, 1913. Distribution in complete or partial liquidation is not con-

sidered as a dividend but as part or full payment in exchange for the stock. As the taxable status of any distribution to stockholders depends largely on the particular status of their own capital invested therein, the law sets up three classifications on the basis of the source from which distributions are made, together with one classification based on the formality of the corporate action, as follows: (a) "Dividends," which are distributions in money or in other property out of earnings or profits accumulated after February 28, 1913. (b) Distributions of "earnings or profits accumulated, or increase in value of property accrued, before March 1, 1913." (c) Distributions in complete or partial liquidation representing amounts distributed by a corporation in cancellation or redemption of all or a part of its stock. (d) Other distributions which do not fall into one of the foregoing classes, including "distributions from depletion reserves based on the discovery value of mines."

The speaker outlined in some detail the special status of foreign corporations and of their distributions to stockholders.

Dividends received from a domestic corporation, or from a foreign corporation in certain circumstances, are exempt from normal tax and subject only to surtax of the individual stockholder, and the corporation owning the stock is subject to no tax thereon.

Distribution other than dividends are all taxed as if payments on sale or other distribution of the stock. They are considered to be paid in reduction of the cost or other base for the stock, and when received in an amount in excess of such base they become taxable as gains from sale or other disposition of the stock.

Gains from securities in general are subject to taxation of the individual at the full normal and surtax rates or at the capital net gain rate, as the case may be, and of the corporation at the twelve per cent. corporation rate. Broadly speaking, a gain or loss is realized when property owned by the taxpayer has been sold for cash, property or property rights of an amount no less than the cost of the property in question. The cost of the property, however, is a question often difficult to settle and the speaker went into detail on the methods of determining it under the law.

In conclusion, the speaker said, "We are trying to include, in a single law, provisions to fix the income status of every business transaction by every citizen or resident of this country. We are, under a tax system which is but 15 years old, raising revenues far beyond the greatest expectations for the system when it was established. The greatest measure of its success as a tax system is that an overwhelming percentage of the amounts collected under it have been paid in by the taxpayers on their original returns as submitted by them. Only a small, almost a negligible, percentage has been collected by additional assessments as a result of government audit and investigation. Convictions for false and fraudulent returns have been exceedingly rare."

Mr. Fernald said that while the tax law and methods of administering it are in need of further study and correction, yet the system of income taxation in this country promises eventually to reach a condition of thorough effectiveness and justice.

JAMES O. MCKINSEY—"THE EFFECT OF  
MERGERS ON MANUFACTURERS'  
PROBLEMS"

Article published in *Manufacturers' News*,  
January, 1929.

Information on the subject of mergers and their effects is scarce in business literature, since reorganizations of this type have not occurred in great number until comparatively recent years, says Mr. McKinsey. Generalizations are dangerous, and he is convinced that each merger is a distinct problem needing individual study. However, he undertakes to raise certain general questions in order to provoke thought on the subject.

Horizontal mergers and vertical mergers are the two broad classifications. The horizontal merger is the consolidation of two or more companies engaged in the same type of activity, such as the manufacture and sale of automobiles. A vertical merger, on the other hand, is a combination of companies which perform different kinds of activities from the point of view of the manufacturing and selling processes but whose products are to a certain extent interdependent. A merger of a mining company producing lead with a company manufacturing and selling paint is offered as an illustration.

Horizontal mergers may be subdivided into combinations of companies (1) dealing in similar products which are unbranded and do not have a distinct entity; (2) producing and selling competing products which are branded and have a distinct entity; (3) selling branded products supplementary to each other rather than competitive with each other.

A combination of banks would illustrate the first type. They sell similar services which have no individual entity. A significant problem in this case is to convince the public that the merged organizations will be able to render better service than the formerly separate banks. Larger customers will naturally derive advantage from the merger, but there is question whether or not the new unit can keep the personal touch with small customers to which they are accustomed. Retention of a large executive force of officers to deal with such customers is a solution but it necessitates a heavy overhead cost. The procedure of companies aggrandized by merger is apt to become standardized because it is increasingly difficult to make exceptions in accordance with individual needs of customers. The difficulty of inducing customers to accept the change in place of business is also often a real one.

The second type of horizontal merger is illustrated by the consolidation of two packing companies with branded products advertised and sold under distinctive names. The first question to be decided in this case is whether the new organization should continue the sale of both products or concentrate on one brand. Experience has shown that upon discontinuance of one brand it is not possible to transfer all its previous buyers to the other brand. Competitors will take some of the former customers during the period of transition. If the sale of both brands is continued, the new merged organization must decide whether they will be sold by one sales organization or by two. It is usually difficult to inspire with enthusiasm for a new product a sales force accustomed to selling another

one. It is found effective in some cases to maintain separate sales organizations and even separate administrative organizations for each of the merged units, especially in instances where products appeal to different types of people and are sold at different prices. If products of both the merged companies are produced at the same cost and are sold at approximately the same price, however, an undesirable competitive condition is apt to arise in these circumstances.

An illustration of the third type of horizontal merger is the union of companies selling office appliances such as typewriters, adding machines, addressing equipment and filing equipment. These products are supplementary to each other rather than competitive. The principal sales problem in this case is whether the same salesmen should sell all the products or whether there should be a separate sales organization for each product. The writer believes that decrease in efficiency is likely from an attempt to have salesmen sell an increased number of products. Some mergers have failed to produce much benefit on account of this condition. Small companies producing a single specialty, upon which the entire sales force concentrates, often make larger profits than bigger companies selling several products with a larger volume of sales but a smaller gross margin.

In addition to sales problems, production problems appear in mergers. Overhead expenses may often be reduced in the case of two companies producing the same product, where activities can be concentrated in fewer production units. In many industries there has been excess of production capacity in recent years and mergers may eliminate the unnecessary and unprofitable units. Again, merged companies sometimes have production facilities in different sales territories and by the combination can produce goods nearer the place of sale, with consequent reduction in production cost. Restriction of output, with consequent reduction of competition, is another possible result of merger.

Vertical mergers are usually effected to obtain control of raw material or piece parts or to obtain control of sales outlets. Most mergers of this type are for the first purpose—control of sources of supply. The original principal company, it is intended, may obtain raw material at less cost by eliminating the profit of the producing company. However, there may sometimes be fallacy in this reasoning because large companies are often able to buy from a number of small companies at prices less than the total cost of the product to the small companies. If the producing companies have unused capacity they may sell part of their product in large quantities to large customers at prices somewhat less than the total cost of production, as long as they obtain from such sales part of the overhead which would otherwise have to be borne by the remainder of their product which is sold to smaller customers.

From the administrative viewpoint, a merger usually results in an over-supply of executives and it is often difficult to determine which executives may be eliminated without affecting the efficiency and morale of the new company. Often, also, executives who were quite efficient in the individual companies are incapable of handling the larger problems of the merged organization.

The question of developing and maintaining a proper esprit de corps among the employees of the

new organization, who are apt to indulge a feeling of jealousy or rivalry, is another important problem.

While admitting that much benefit may be gained from mergers in many cases and that the tendency toward mergers will doubtless continue, the writer expresses the opinion that mergers should not be con-

sidered a solution of all problems in all cases. Promoters and investment bankers sometimes stimulate mergers, from which they derive substantial profits, and while they may often be justified it is sometimes found that the merger does not bring all the benefits which were expected.

## EMPLOYMENT EXCHANGE

There has been great diversity in the nature of positions available which have come to the attention of the Institute's employment exchange. Many of the firms have required a special type of man with certain specified experience, and the exchange often has had no record of accountants with the particular qualifications desired. Members of the Institute seeking new affiliations, as well as other qualified accountants in search of employment, are urged, therefore, to communicate with the exchange no matter what grade of position is desired. The number of registrants has so far been smaller than that of positions to be filled, and, while some applicants have not been placed because they did not happen to be suitable, there have been attractive opportunities wasted because of lack of available applicants of the kind needed. The following applicants are among those registered at present:

No. 11A—Member, American Institute of Accountants, is seeking position of greater responsibility than that of senior accountant. Age 41. Fifteen years' accounting experience. C. P. A. and chartered accountant. Salary open. Now in New Jersey.

No. 23A—Senior accountant, age 37, now in Florida, wishes position in another state. Six years' public accounting experience. Salary about \$250.

No. 39A—Member, American Institute of Accountants, seeking executive accounting position in public accounting firm or private concern. C. P. A. of New Jersey, New York and Pennsylvania. Twenty years' public accounting experience. Salary about \$5,000. Resides in New Jersey.

No. 45A—Senior accountant now in Florida wishes position in any other part of the country. Age 40. Twenty years' accounting experience, Salary \$250-\$300.

No. 46A—Accountant with six years' experience with private concerns wishes to enter public accounting profession in New York. Age 24. Minimum salary \$40.

The Institute has not investigated statements made by applicants and can not accept responsibility for their accuracy.

## OBITUARY

### James T. Anyon

James T. Anyon, member of the American Institute of Accountants, certified public accountant of New York and senior partner of the firm Barrow, Wade, Guthrie & Company, died February 7th, after an illness of about two weeks. Mr. Anyon was one of the original members of the American Association of Public Accountants, and when the form of organization was changed in 1916, he became a charter member of the American Institute of Accountants. Mr. Anyon's interest in the development of the profession is well known to all practitioners. No one in the profession did more to establish accountancy in the last decades of the nineteenth century than Mr. Anyon. He was in active practice almost to the time of his death.

### Samuel A. Blustein

Samuel A. Blustein, a member of the American Institute of Accountants, died on January 2nd. He was admitted to the Institute in 1923 and was a C. P. A. of West Virginia. Mr. Blustein was an officer of the National Audit Company, Charleston, and had been in public practice for 12 years.

### John Garrett

John Garret, a member of the American Institute of Accountants, died January 2, 1929, at Hartford, Connecticut. He was admitted to the Institute in 1919. He had been with Price, Waterhouse & Co. for about 20 years, but at the time of his death he had retired from active practice.



**J. M. McShane**

J. M. McShane, a charter member of the American Institute of Accountants, died on January 24, 1929. He was a certified public accountant of Missouri and at the time of his death was in practice on his own account in St. Louis.

**Samuel Newberger**

Samuel Newberger, a member of the American Institute of Accountants, died February 2, 1929. Mr. Newberger was admitted to the Institute in 1920. He was a certified public accountant of New Hampshire and a

member of the firm of Samuel Newberger & Co., Park Row, New York.

**Fred H. Wendell**

After an illness of more than six months, Fred H. Wendell died in a hospital in Minneapolis, Minnesota, on December 12, 1928. Mr. Wendell was a member of the American Institute of Accountants and had been a member of the American Association of Public Accountants. He was a certified public accountant of Minnesota and prior to his illness had been practising on his own account.

**HERE AND THERE**

Charles B. Couchman, 350 Madison avenue, New York, formerly practising as Crockett, Couchman & Crawford, announces the merger of his practice with that of Barrow, Wade, Guthrie & Co. The office will be known as the uptown office of Barrow, Wade, Guthrie & Co. and the staff will remain the same.

D. S. Jeppson, Honolulu, T. H., announces the opening of an office as consulting accountant at 924 Bethel street.

Arthur Jones and Dwight Williams announce the opening of an office under the firm name of Jones & Williams at 1505 Phil-tower, Tulsa, Oklahoma.

Benjamin H. Hicklin announces that James J. Redmond has become associated with him. The firm, to be known as Hicklin & Redmond, will maintain offices at 941 Russ building, San Francisco.

Horwath & Horwath announce the opening of an office in the Magnolia building, Dallas, Texas.

F. W. Lafrentz & Co., Bullock, Kellog & Mitchell and W. L. Palethorpe & Co. announce the consolidation of their practices under the firm name of F. W. Lafrentz & Co.,

with offices at San Francisco, Los Angeles, Oakland and El Paso.

Daniel Levy & Co., New York, announce the removal of offices to suite 1244 Salmon Tower building, 11 West Forty-second street.

Mattison & Davey, Tulsa, Oklahoma, announce that they have formed a partnership with George F. Winters for the general practice of accountancy under the firm name of Mattison, Davey & Winters.

W. A. Musgrave & Co., Hartford, Connecticut, announce the removal of their offices to the Hartford National Bank and Trust Company building at 36 Pearl street.

Arthur L. Risley & Co., 110 State street, Boston, announce that Karl H. Becker was admitted to membership in the firm on January 1st.

Stephen G. Rusk, Cleveland, Ohio, announces the continuance of his practice under the firm name of Stephen G. Rusk & Co. with offices in the Engineers National Bank building.

Touche, Niven & Co. announce the admission of J. P. Friedman as a partner in the firm.

Announcement has been made that William M. Corcoran and Walter F. Smith have been admitted as members of the firm of S. H. & Lee J. Wolfe, New York.

Francis A. Wright & Co. and Robert P. Minter & Co. announce the association of their practices and the establishment of an office at 613 City Bank building, Kansas City, Missouri.

H. Winfield Wright & Co., Philadelphia, Pennsylvania, announce the removal of their offices to the Ledger building, Sixth and Chestnut streets.

Reynold E. Blight, Los Angeles, has been appointed franchise-tax commissioner of California. He will organize a new state tax unit for corporations and banks.

At a meeting of the American Association for the Advancement of Science at Columbia University, December 28th, F. P. Byerly, Philadelphia, delivered an address on provision for obsolescence of processes and patents in the chemical industries. Mr. Byerly's address is to be published in *Chemical and Metallurgical Engineering*.

Gerald M. Conkling, Topeka, Kansas, delivered an address entitled "When textbooks are of little value in audits" before the class in auditing at Kansas State Agricultural College December 19, 1928. Mr. Conkling is serving as a member of the finance committee of the Shawnee golf club.

Harvey C. Daines, Chicago, addressed a joint meeting of the Kansas City chapter of the National Association of Cost Accountants and the Kansas City Sales Managers Association, December 17th, on "Budgetary control." On December 27th Mr. Daines spoke before a meeting of the American Association of University Instructors in Accounting on "The changing objectives of accounting."

The *Mining Congress Journal* for November, 1928, contained an article entitled "Con-

solidated-returns regulations under the 1928 revenue law" by Henry B. Fernald of New York.

L. Gluck, New York, is the author of an article entitled "The traveling salesman's tax return" which is published in the February issue of *The Sample Case*.

J. Brooks Heckert, Columbus, Ohio, delivered an address entitled "Methods and advantages of early closing" at the annual meeting of the American Association of University Instructors in Accounting at Chicago on December 26th.

George P. Jackson delivered an address entitled "Estate and inheritance taxes" before a meeting of the American Institute of Banking in Kansas City, January 21st. An article prepared by Mr. Jackson on schedules of tax reports for corporations and individuals required by the states of Missouri and Kansas has been published by the Commerce Trust Company of Kansas City. As chairman of the educational committee of the Kansas City Association of Credit Men Mr. Jackson arranged several lectures on accounting and other business subjects.

J. Hugh Jackson, of Stanford University, California, addressed a series of meetings of the Southern California Commercial Teachers recently. His subjects included "The balance-sheet approach in teaching bookkeeping," "Trends in commercial education," "Some difficulties in the teaching of bookkeeping" and "Why educate for business?" On December 29th Mr. Jackson delivered his presidential address before the American Association of University Instructors in Accounting. Recently he delivered an address before the Kiwanis club of Redwood City.

Professional education for real-estate dealers was the subject of an address which C. L. Kelly, Portland, delivered before a meeting of the Pacific Northwest Real Estate Association held in Seattle on January 12th.

# BULLETIN

## OF THE

### AMERICAN INSTITUTE OF ACCOUNTANTS

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MARCH 15, 1929

SERIES B, No. 59

#### American Institute Examinations

The spring examinations of the American Institute of Accountants will be held May 16 and 17, 1929. Applications for admission to the Institute should be submitted at once.

Examinations will be conducted in New York and probably in Chicago and Boston. Arrangements can usually be made to hold examinations in cities convenient to applicants.

The schedule of examination is as follows: Thursday, May 16th, Auditing, 9:00 a.m. to 12:30 p.m.; Accounting theory and practice, part I, 1:00 p.m. to 6:00 p.m.; Friday, May 17th, Commercial law, 9:00 a.m. to 12:30 p.m.; Accounting theory and practice, part II, 1:00 p.m. to 6:00 p.m.

#### Meeting of Council

The council of the American Institute of Accountants will hold its semi-annual meeting on April 8, 1929, at the offices of the Institute, 135 Cedar street, New York. The meeting will convene at 10:00 a.m.

#### Institute Opposes Accountancy Bill

Albert T. Bacon, vice-president of the American Institute of Accountants, represented the Institute at the request of the Iowa State Society of Certified Public Accountants at a hearing on Iowa senate bill No. 194 before the judiciary committee of the senate, February 20th. The bill was introduced by a group of non-certified ac-

countants and contains several objectionable features including a waiver provision.

I. B. McGladrey, president of the Iowa society, spoke first before the senate committee and explained the nature of the bill, the history of its introduction and the reasons why it was opposed by the certified public accountants. Mr. Bacon was the next speaker. He stated that the American Institute of Accountants had sponsored a model C. P. A. law to which the present Iowa accountancy law corresponds and that similar laws are in force in most of the states, and he intimated that the necessity for change in Iowa was not evident. He expressed the opinion that to reopen the waiver at this time would not be in the interest of the public and would unquestionably injure the standing of all C. P. A. certificates issued by the state, while the present national tendency in all professions, in trade practices and in business is to raise the standards rather than lower them.

New legislation containing waiver provisions subjects the public to possible abuses because it is necessary to admit without examination men who may not be qualified for professional credentials. This unfair condition is gradually eliminated with the passage of time as the men profiting by the waiver decrease in number. It would be obviously undesirable, Mr. Bacon asserted, to permit unnecessary repetition of these unjust conditions which deprive the public of the protection to which it is entitled.

As this *Bulletin* goes to press the senate committee has not yet reported the bill in question.

## **Library Bulletin**

The library and bureau of information of the American Institute of Accountants has published its thirty-first special bulletin containing queries and answers on technical questions submitted to the bureau of information. Copies of the pamphlet are being sent to members and associates of the Institute with this *Bulletin*. Additional copies may be obtained at a price of ten cents each.

Subjects discussed in the present publication are amusement-park accounting, calculation of interest, consolidated balance-sheet, cost of engravings to lithographers, depreciation of office buildings and equipment, payroll book as evidence, sugar-refinery problem, taxes on coal mines and use of the term "working capital."

## **Institute's Terminological Activities Explained to Bankers**

At a joint meeting of the St. Louis chapters of the Missouri Society of Certified Public Accountants and the Robert Morris Associates, John J. Lang, speaking of accounting terminology, described the activities of the special committee on terminology of the American Institute of Accountants. He explained the procedure and purposes of the committee and urged that the bankers give consideration to the same problem, inasmuch as they are directly affected. Mr. Lang suggested that bankers give a place at their regular meetings to the question of definition of accounting terms.

The speaker particularly drew attention to the peculiar difficulty of composing a terminology for accounting because by its very nature such a vocabulary could not be as technical as those in use in other professions. The terms of the accountant are of direct interest and importance to the public, the banker and the client, and while he needs technical terms for his own purposes those terms must convey the correct meaning to other parties concerned.

## **Investment Trusts among Subjects for "Journal of Accountancy"**

Accounting problems peculiar to investment trusts and their solution will be ex-

plained in a forthcoming issue of *The Journal of Accountancy*. An article by Herman E. Schreiber, which was commenced in the March issue of the magazine, will deal, in the next instalment, with specific methods of preparing accounting forms, of recording business transactions and of auditing the accounts of investment trusts. Such matters as the valuation of the securities, treatment of profits and losses resulting from changing investments, reserves, internal check on investments and on income therefrom, etc., are included in the material awaiting publication.

Another article on the subject of industrial pensions and wages is in the tentative table of contents for the April issue. The paper is by John Whitmore and is the second of two articles on the topic which he has written for the *Journal*.

An instalment of the paper "Early history of bookkeeping by double entry" will appear in the same number, according to present plans. Other special articles and the usual departments of the magazine will constitute the rest of the contents.

## **State Officer Discusses Registration**

At a meeting of the New York State Society of Certified Public Accountants on February 11th, James Sullivan, assistant commissioner for secondary education of the University of the State of New York, gave a brief address on the question of registration for professions. He emphasized the point that compulsory registration of all practitioners is a weapon with which the department might enforce the provisions of the law. His remarks were part of a discussion of the C. P. A. bill, now in the state legislature, which is sponsored by the New York State Society. This bill provides strict prerequisites for the C. P. A. certificate and rigid penalties for practice as a certified public accountant without due authorization. There is no provision for registration, however, and Dr. Sullivan intimated that there might be difficulty without it in preventing illegal practice under the title "certified public accountant."

Some of the accountants present argued that registration would be merely an additional annoyance without being of particular value, inasmuch as the record

of C. P. A. certificates issued would serve substantially the same purpose. In response to questions, Dr. Sullivan told of the conditions in other professions. Medical practitioners in New York, he said, were at first extremely averse to annual registration, but after it had been in effect for a year the leaders of the medical association admitted its beneficial effect. Lawyers, of course, are governed by the courts and while they are registered in one sense of the word, the method is different from that of the state education department.

It was pointed out to Dr. Sullivan by several members of the society that its own committee dealing with violations of the C. P. A. act had had considerable success in enforcing the provisions of the law restricting practice as certified public accountants to duly qualified and authorized accountants. It was suggested that inasmuch as the society was active and effective in coöperating with the state authorities in enforcement of the C. P. A. law, there was no necessity for registration. It seemed the general sentiment of the society that certified public accountants of New York would prefer at the present time not to be subjected to registration.

### **Causes of Business Failures**

In an address before members of the Northampton Rotary club at Northampton, Massachusetts, February 11th, Charles F. Rittenhouse referred to a recent report of Bradstreet's credit agency, analyzing the reasons for the failure of 19,159 different business concerns. The report listed specific causes with the percentage of cases in which each cause was the chief factor, some of which are as follows: lack of capital, 34.2 per cent.; incompetence, 33.7 per cent.; inexperience, 4.7 per cent.; fraud, 4.2 per cent.; extravagance, 1.3 per cent.; unwise credit, 1.2 per cent.; speculation, 3.3 per cent.; competition, 1.4 per cent.

Mr. Rittenhouse expressed doubt whether lack of capital could be an accurate explanation in such a large number of cases. Abundant capital, he said, is often a handicap. He believed that the large percentage of failures attributed to lack of capital was caused by the facility of the excuse. Mr. Rittenhouse likewise questioned several other percentages given. He was inclined

to ascribe success or failure to intangible personal qualities of the key men in the organizations rather than to external conditions.

### **Programme for International Congress on Accounting**

The complete programme for the international congress on accounting to be held in New York, September 9 to 14, 1929, will probably be published within the next month. A tentative programme was described in the Institute *Bulletin* for January, 1929. A feature of plans for the congress is the special emphasis on accounting matters of direct interest to controllers, cost accountants, accountancy instructors and business executives whose duties demand a knowledge of accounting.

According to replies which have been received in response to invitations so far the attendance will come up to expectations. Messages from all over the United States indicate that accounting societies and schools will be represented and letters from England and Holland promise good attendance from those countries.

### **Incorporated Accountants Open New Home**

Incorporated Accountants Hall, formerly known as the Astor House, on the Victoria embankment, London, was formally opened by the Duke of York on February 19th. The handsome building henceforth to be headquarters of the Society of Incorporated Accountants and Auditors was purchased last summer.

On February 18th the American Institute of Accountants sent the following cable message to the secretary of the Incorporated Society:

"American Institute Accountants extends cordial felicitations to Incorporated Society upon formal opening Society's splendid hall."

### **Cash Discount Never above 3 Per Cent. in Textile Industry**

Joseph J. Klein, former president of the New York State Society of Certified Public Accountants, recently expressed the opinion that no discount in excess of three per cent. should be considered as a cash discount in the textile industry. Discounts in excess of

that amount by custom and usage are regarded as trade discounts. In fact, he said, two per cent. is the prevailing cash discount rate; higher rates almost invariably involve elements other than compensation for the use of money. This opinion was expressed as part of Mr. Klein's testimony as expert witness at a hearing concerned with equity receivership proceedings.

### **Richard H. Browne Honored**

At a meeting of the Hotel Accountants Association of New York on February 21st, Richard H. Browne, first president of the association, was made an honorary member. Mr. Browne was instrumental in the organization of the association and he is credited with the original conception of the idea. He is a member of the American Institute of Accountants.

### **Proper Education for Professions**

What constitutes the proper sort of education for professional life is a question which was considered by John T. Madden, dean of the school of commerce, accounts and finance of New York University, at a meeting of the Massachusetts Society of Certified Public Accountants at Boston, February 9th. He expressed doubt whether the present pre-medical education was of benefit to the community. There is very little relation between some of the work required and the practice of the art of healing, he said, and the cost of a student's medical education is now almost prohibitive in the case of young men without substantial financial support.

The speaker deplored the general belief that education is complete upon discharge from the classroom. Formal education, he said, is merely the foundation and self-education is the superstructure reared upon it. Some persons expect too much of college graduates. They think that the finished product should go from the classroom to the business office.

It was made clear, however, that the speaker did not recommend a less rigorous professional preparation for lawyers, although, he said, no amount of liberal education by itself would raise the moral tone of the bar. He also stated that the preliminary education for accountants should be not less rigorous than that for lawyers

because accountants are continually encountering more complex and difficult problems. Far from being a recorder of debits and credits, the accountant should now be a financial executive and advisor.

### **Accounting Attracts College Men**

In the report of the secretary of appointments of Columbia University for 1928, statistics are included to show the various businesses and professions in which Columbia students were placed.

From October 1, 1927, to September 30, 1928, according to the report, 19 men obtained full-time, permanent positions in accounting. No distinction is made between staff positions in public accounting firms and accounting positions with private organizations. The only field, however, which claimed a larger number of men is law, in which 99 students found work.

Fourteen male students entered investment banking and brokerage, 10 department-store work and 10 others advertising. The only other large groups were in various capacities in manufacturing, public-utility and publishing companies. The total number of men considered in the report is 272.

The report for women for the same period shows that only 1 was placed in accounting, while 46 entered educational work and 22 publishing, out of a total of 171.

### **Retail Dry Goods Expense Manual Published**

The Controllers Congress of the National Retail Dry Goods Association has issued as an official publication an expense manual prepared by the expense-manual committee of the congress with the encouragement and support of the accounting committee of the National Retail Dry Goods Association and the committee on standardization of the Controllers Congress. The manual consists of 73 pages, plus charts. It contains definitions of the natural divisions into which expense items fall and expense classifications for small, medium-sized and large retail stores, respectively.

### **Accounting Simplification in Hotel Industry**

At a meeting of the Hotel Accountants Association of New York, January 25th, the chairman of the accounting-simplification

committee outlined the programme of the committee for the current year and asked the coöperation of members of the association. The plan is to assign to each member of the committee a certain phase of the subject on which he will be expected to prepare material. That member will then communicate with each member of the association to obtain information on the manner of dealing with that particular phase of accounting in individual hotels. The data will be classified in groups according to the size of the respective hotels whose accountants report. A consolidated report on the material will then be prepared by the committee member and will be incorporated in one comprehensive report of the accounting-simplification committee, which will be subject to the approval of the technical committee of the association. Final publication of the matter, it is expected, will be of great assistance in simplifying accounting procedures among hotels.

### **Cost Association of the Paper Industry**

The twenty-second semi-annual meeting of the Cost Association of the Paper Industry was held at the Waldorf-Astoria hotel, New York, February 20, 1929.

Three important papers were read by accountants at different sessions. Henry B. Fernald delivered an address on "Recent changes in income-tax law and procedure, particularly as affecting the paper industry." H. G. Crockett read a paper entitled "Plan your work and work your plan." Thomas J. Burke, secretary of the association, spoke on "Depreciation reserve funds and reproductive values." All three accountants are members or associates of the American Institute of Accountants.

Other subjects of particular interest which received consideration are the international fixed calendar—which received the approval of the association—association statistics in the paper industry, higher wages and lower costs and progress in depreciation studies by the bureau of internal revenue, which was discussed by J. A. Grimes, engineer in charge of the bureau's studies.

All the papers read at the meeting will be published in *Pulp and Paper Profits*, the official organ of the association.

During the business session it was reported that in the past year labor turnover in the industry had been reduced about five per cent.

In an analysis of production costs it was stated that raw materials and supplies constitute from fifty to sixty per cent. of the total cost and labor fifteen to twenty per cent. The reduction in labor cost was attributed largely to the success of bonus plans.

### **Twenty Candidates Successful in Maryland Examinations**

The following candidates passed the C. P. A. examinations of Maryland held in November, 1928, and will be recommended to the governor for certification: James Elwood Armstrong, Albert Bauer, Newell Barton Benson, Millard Theodore Charlton, Leon Chayt, Edward Cohen, James Daniel Cushman, E. Stanley Frost, Julius S. Levy, Arthur Eugene Lundvall, John Leon McKewen, James Russell Medford, Frank A. Shallenberger, Joseph Robert Shaw, Edward Gettier Shipley, Henry Malcolm Sorrell, William Henry Stutman, Robert Talmadge Taylor, William Price Trolinger and James Roger Yates.

### **Calendar Reform**

One of the latest developments in the widespread discussions of the advisability of modifying or supplanting the Gregorian calendar is the recent report of the committee on calendar reform of the Chamber of Commerce of the United States. This report, after explanation of the committee's position, with frequent references to the report of the subcommittee of inquiry submitted to the League of Nations in 1926, recommends that the present calendar be changed and that the government of the United States participate in an international conference to be called to formulate a plan for calendar reform. It is to be noted that the committee clearly declines to recommend any specific plan of alteration, although the choice of plan is practically limited, according to the report, to one of the two best-known suggestions—a year containing 13 months of 28 days each or a year containing 12 months, of which the quarter years would be equal, each quarter containing 2 months of 30 days and one month of 31 days.

The committee's report will be referred by the board of directors to the annual meeting of the chamber to be held April 30 and May 1, 1929.

## NEWS OF LOCAL SOCIETIES

### California State Society of Certified Public Accountants

#### LOS ANGELES CHAPTER

At the meeting of the Los Angeles chapter of the California State Society of Certified Public Accountants held on February 11th several important matters received consideration.

Norman L. McLaren, president of the society, spoke on the status of legislation in California as it affects the interests of the public accounting profession.

John R. Ruckstell, past president of the American Institute of Accountants, discussed the progress of coöperation between bankers and accountants, and he expressed the feeling that at the next annual meetings of California bankers' and accountants' associations the reports of joint committees would reveal the greatest progress in mutually helpful relations between the two groups that has so far taken place in any section of the country.

The administration of a recently approved amendment providing for taxation of banks and corporations in California was discussed by Reynold E. Blight, who has been appointed commissioner in charge of administering the measure.

### Pennsylvania Institute to Meet at Wernersville

Following a meeting of council of the Pennsylvania Institute of Certified Public Accountants on January 28th, announce-

ment was made that the next annual meeting of the Institute will be held at Galen Hall, Wernersville, Pennsylvania. The meeting will take place during the latter part of June, the exact dates to be announced later.

The council also decided at its meeting that the dues for all members be waived during the first year after the date of their election. Another innovation is the appointment of a bulletin committee of five members of the Institute who will supervise the issuance of periodical bulletins, the publication of which was authorized at the 1928 annual meeting.

#### PHILADELPHIA CHAPTER

The revenue act of 1928 was the chief subject of discussion at the February meeting of the Philadelphia chapter, Pennsylvania Institute of Certified Public Accountants, at the Art club, Philadelphia. Walter A. Staub was the principal speaker. He drew attention to the increase in earned-income allowance for individuals from \$20,000 to \$30,000, the reduction of the corporation income-tax rate and the increase in exemption credits for small corporations. He also mentioned the increase from 25 per cent. to 40 per cent. of the amount allowed as initial payment on instalment sales. Insertion in the law of definite provisions describing the basis for determining gain or loss has largely removed the uncertainty which once existed with respect to the sale of property by executors, heirs and devisees, Mr. Staub said.

## STATE LEGISLATION

The number of new bills to regulate the accountancy profession introduced in state legislatures during this session has grown to 11. In addition, 3 amendments have been proposed to alter accountancy laws now in effect. The states in which such bills have been presented are California, Indiana, Iowa, Kansas, New York, North Carolina, Ohio, Oklahoma, Oregon, Washington, West Virginia and Wyoming.

Other bills, of less importance to the profession but dealing in some way with accounting, are also reported in the summaries which follow this item.

Bills which were mentioned in the February *Bulletin* are, in some cases, omitted from consideration this month because no significant action has been taken. Favorable or unfavorable action is reported in every case in which definite advice has been received.

Legislatures of the following states are expected to adjourn or have adjourned during March: Arizona, Arkansas, Idaho, Indiana, Iowa, Kansas, Montana, Nevada, New Mexico, New York, North Carolina, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Vermont and Washington.



## *Bulletin of American Institute of Accountants*

### **Arkansas**

A bill to impose privilege taxes on persons engaged in certain occupations, introduced in the Arkansas legislature, January 29th, would levy an annual tax of \$25 on practising certified public accountants, unless the annual income of the practitioner were less than \$1,000. In that case only one-half the tax would have to be paid. The bill was supplanted on February 19th by a substitute, designated as senate bill No. 3381, which contains some minor changes.

### **California**

The legislature of California recessed during the late part of January and early February. Upon reconvention it proceeded to give consideration to bills introduced in the first period of session. No action on any of the bills in California mentioned in the February *Bulletin* has as yet been reported.

### **Connecticut**

No action has been reported on Connecticut house bill No. 106, whose introduction was mentioned in last month's *Bulletin*. The bill makes provision for the replacement of town auditors by public accountants.

House bill No. 105, introduced February 15th, provides that any public accountant who performs an audit or investigation for a municipality shall render to the tax commissioner a certified copy of the report. A forfeit of one-half the fee would be the penalty for failure to comply with this requirement.

Senate bill No. 365 is in part concerned with the installation of a uniform system of accounting in hospitals aided by the state. The accounting system recommended by the American Hospital Association would be required, at least in its essentials.

On February 28th a bill relating to the audit of public offices and departments was introduced under the designation of house bill No. 713.

### **Idaho**

In Idaho a bill providing for a uniform system of accounting for public utilities in

cities of certain sizes was killed in the senate. It was designated as senate bill No. 151.

### **Indiana**

Indiana senate bill No. 25, to which reference was made in the February *Bulletin*, has passed both senate and house and awaits the approval or veto of the governor. This bill would further amend an amendment to the accountancy law passed in 1927, which contains among other things requirements of residence, preliminary practice and education for candidates for the C. P. A. certificate. The present bill would add to the section in question the following words:

"and, Provided further, That nothing herein contained shall affect any applicant who has heretofore filed an application which has been approved, and such applicant has made a passing grade in two subjects and who will be entitled to a certificate upon his having made a passing grade in the remaining subject."

House bill No. 154, reported in the last *Bulletin*, which would require certain finance companies to submit annual financial reports to the state auditor, has passed the house and is under the consideration of the senate committee on corporations.

### **Iowa**

An accountancy bill containing many objectionable features was proposed in the Iowa legislature in the early part of February. It had the immediate opposition of the Iowa Society of Certified Public Accountants and was soon withdrawn. A less dangerous but still undesirable bill was substituted for it under the designations of senate bill No. 194 and house bill No. 207. A waiver clause, provision for award of C. P. A. certificates in special cases on the basis of oral examination or thesis, and recognition of governmental employees as public accountants were among the features of the bill which the Iowa society continued to oppose. The society enlisted the co-operation of the American Institute of Accountants, and a vice-president of the Institute spoke against the bill at a hearing before the committee on judiciary of the senate, as reported elsewhere in this *Bulletin*.

At the time when this issue goes to press the bill has not been reported out of committee.

The Iowa legislature was in recess from February 23rd to March 4th.

### **Kansas**

Senate bill No. 311, which would supplant the accountancy law of Kansas, has been reported unfavorably in the senate.

### **Montana**

A bill relating to the inspection of corporation records, house bill No. 141, has been reported favorably in the house of representatives of Montana, with slight amendment.

House bills Nos. 276 and 288, respectively empowering the state auditor to prescribe a system of accounting for all agencies of the state and providing for a centralized accounting department and system for the whole state, have been reported unfavorably in the house.

### **Nevada**

Approval by the state board of accountancy of a uniform system of accounting for state departments and institutions would be required under Nevada house bill No. 29 which passed the house March 1st. The bill amends an act requiring the state auditor to prescribe such a system and to conduct periodical audits of the accounts of state departments, officers, etc. The approval of the state board of revenue and of the governor would also be necessary under the amendment.

### **New Jersey**

Senate joint resolutions Nos. 5 and 6, dealing with governmental accounting and auditing of the state finances, have passed both houses of the legislature. Resolution No. 5 has already been approved by the governor. It reads as follows:

"Joint resolution for the creation of a commission on state audit and accounting system for the state and the several departments, boards and commissions receiving state moneys or public funds of any kinds.

"BE IT RESOLVED by the senate and general assembly of the state of New Jersey:

"1. There is hereby created a commission, to be known as 'The state audit and finance commission,' to be composed of Senator Frank D. Abell, of Morris county; Senator Emerson L. Richards, of Atlantic county; Senator A. Crozer Reeves, of Mercer county; Assemblyman Guy George Gabrielson, of Essex county; Assemblyman William B. Knight, of Camden county and Assemblyman Dryden Kuser, of Somerset county, who shall constitute a commission for the purpose of collaborating with the governor in connection with the audit of the finances of the state, and for the purpose of recommending to the governor, as to what boards, commission or departments of the state may be consolidated or otherwise reorganized to avoid over-lapping of effort and jurisdiction, to examine the work, pay and duties of the employees of such boards, commissions and departments with the view of reducing costs of administration and promoting efficiency, and of a comprehensive method of operation and system of accounts for the general treasury of the state and for the various boards, commissions and departments of the state receiving any funds for their support or maintenance from the state or its inhabitants.

"2. Such commission shall serve without pay, but are authorized to employ such accounting, investigating, clerical or other assistants as to them may seem necessary, but the members of such commission shall be allowed traveling expenses.

"3. Such commission shall have the power to subpoena and examine witnesses, and any accounts, records or other matters pertaining to the operation of any department or departments of the state, or any bi-state commission, which may be acting jointly with another state."

"4. Such commission shall organize by the election of a chairman and a secretary, which latter need not be a member of the commission. Said commission shall meet from time to time, hold hearings and examinations in the manner and in places which to them may seem best and proper.

"5. Any agency, board or department of the state shall furnish to such commission such information, records and data as may be required for a comprehensive analysis of the operation and financial affairs of such agencies, boards or commissions or bi-state commission as from time to time such commission shall determine.

"6. There is hereby appropriated the sum of fifteen thousand dollars for the expenses of such commission when included in any annual or supplemental appropriation bill.

"7. This resolution shall take effect immediately."

The text of senate joint resolution No. 6, which is before the governor, is as follows:

"Joint resolution empowering the governor to employ experts and accountants to audit the accounts of departments, boards, commissions, officers and agencies of the state, and to devise a more efficient system of accounting therefor, and to provide an appropriation to defray the cost thereof.

"BE IT RESOLVED by the senate and general assembly of the state of New Jersey:

"1. That the governor be and hereby is empowered to employ such experts or accountants as he may deem expedient to make an audit of the accounts, receipts, disbursements or other matters connected therewith as of the close of the fiscal year one thousand nine hundred and twenty-eight, of all departments, boards, commissions, officers or agencies of the state handling, receiving or expending moneys.

"2. That the governor be and he is likewise hereby empowered to employ experts or the persons already employed by him pursuant to paragraph 1 of this resolution to recommend a more efficient system of accounting for the various departments of the state government, boards or commissions, officers or agencies of the state receiving, expending or handling moneys.

"3. The governor is hereby empowered at his discretion to investigate the fiscal operations of the various departments of the state government boards or commissions, officers or agencies of the state receiving, expending or handling moneys, and is directed to carry out the provisions of this resolution.

"4. There is hereby appropriated to carry out the provisions of this resolution the sum of fifty thousand dollars (\$50,000).

"5. This joint resolution shall take effect immediately."

### **New York**

The accountancy bill prepared by the New York State Society of Certified Public Accountants and introduced in the state legislature as assembly bill No. 375 and senate bill No. 248 was amended slightly and recommitted. On March 5th it was reported favorably in the senate. A summary of the bill was published in the February issue of the *Bulletin*.

Another accountancy bill, similar to the Gedney bill proposed in 1928, was introduced on February 20th as senate bill No. 880. In the assembly it has been given the number 1203. It contains a waiver clause providing for the granting of certificates without examination to accountants who had been in public practice for five years prior to the date of passage of the bill. Certified public accountants would be required to obtain licences, renewable annually, to practise their profession. Temporary certificates and licences, valid for not more than ten years, might be issued to public accountants not certified in the regular manner. Practice in New York would be forbidden those not licensed under the act.

A bill designated as assembly bill No. 755 and senate bill No. 512 relates generally to

professional boards for the supervision of all professions in the state. It provides that such a board, of at least three members, shall be organized for each profession, regardless of other prior legislation. It also makes provisions, relating to the functions, authority and finances of such boards, which are presumably intended to supersede all existing laws. The commissioner of education would be authorized to prepare the question papers for all written examinations held pursuant to existing professional laws, by selecting questions from lists of possible ones submitted by the board concerned.

### **North Carolina**

Announcement has been made of the introduction in the North Carolina legislature of a bill to "regulate licensing of public accountants," but as this *Bulletin* goes to press no details have been received. The bill is house bill No. 1153.

Senate bill No. 568 would amend the existing accountancy law to permit persons or firms engaged in public accounting practice at the time of passage of the act, March 10, 1925, to register as public accountants before October 1, 1929. Previously such registration was permitted only within six months after the act was passed. This bill has been reported favorably in the senate.

House bill No. 791 would amend the existing law by amplifying the definition of the term "practice of public accounting." The present definition includes merely the offering of one's services as a certified public accountant or a public accountant. The proposed amendment mentions the specific acts which would be regarded as the practice of public accounting. The bill has been reported favorably in the house.

Senate bill 447 would require county officers engaging certified public accountants to make a written contract stipulating the terms and provisions of the engagement. This bill has passed the senate.

### **Ohio**

A two-class, regulatory accountancy bill has been introduced in the Ohio legislature at the instance of the Ohio Society of Certified Public Accountants. The bill is

known as house bill No. 224. It appears to be essentially similar to the present Michigan law. It is under the consideration of the house committee on codes. Members of the society have been officially urged to communicate with their local representatives in the legislature in support of the bill, and also to endeavor to enlist the cooperation of clients.

### **Oklahoma**

The accountancy bill sponsored by the Oklahoma Society of Certified Public Accountants, house bill No. 208, has been reported favorably in the house with minor amendments, providing quarters for examination of candidates and traveling expenses for members of the board. The bill, as mentioned in the February *Bulletin*, is non-restrictive and generally similar to the accountancy laws of New York and Pennsylvania.

### **Oregon**

The accountancy bill supported by the Oregon State Society of Certified Public Accountants has been withdrawn from the legislature. Strong local opposition developed which made it appear that certain concessions would be necessary before the bill could pass. These proposals were not regarded with favor by the society and it was considered best to let the matter rest for the present. The bill was of the two-class, regulatory type. Its opponents desired the insertion of a waiver clause and a provision that public accountants, whether certified or not, might be members of the state board of accountancy. The bill was known as house bill No. 267.

House bill No. 238, prescribing uniform accounting for municipalities, has passed both houses of the legislature and has been approved by the governor.

House bill No. 291, providing for a compulsory annual audit of all state departments, boards, institutions, etc., and for engagement of accounting experts for such examinations, if necessary, has passed both house and senate and has been approved by the governor. The text of the act is as follows:

An act to provide for an annual audit of the records and accounts of all state departments, boards, commissions, institutions and state-aided institutions of state government of the state of Oregon, and repealing paragraph 2 of section 2,717, Oregon Laws, and chapter 413, General Laws of Oregon, 1927, and amending section 1, chapter 370, General Laws of Oregon, 1927.

Be it enacted by the people of the state of Oregon:

Section 1. The secretary of state, as state auditor, is hereby empowered and directed to have the accounts and financial affairs of all state departments, boards, commissions, institutions and state-aided institutions and agencies of the state of Oregon examined and audited at least once each calendar year, and shall employ accounting experts to make such audits and examinations as he may deem to be necessary. The secretary of state shall have power to subpoena witnesses, require the production of books and papers and rendering of reports in such manner and form as he shall require, and to do all things necessary to secure a full and thorough investigation, and shall submit his report, in writing, to the governor. A similar audit and examination shall be made of any institution or department of the state government at any time the executive head of such institution or department shall for any reason retire from his office or position. The secretary of state shall employ such auditors upon such terms and for such compensation as he may deem advantageous and advisable, and is hereby authorized to accept any audit which may have been contracted for, provided such audit be made by a person or firm meeting with the approval of the secretary of state.

Sec. 2. The cost and expense of each and every audit authorized by this act, except the cost of audits for which appropriations or allowances pursuant to budget estimates have been made, shall be paid from the appropriation for, or funds under the control of, the office, department, board, commission or institution audited; and if both an appropriation and other funds shall be charged commensurately with their just proportions of the cost thereof.

Sec. 3. That section 1, chapter 370, be amended to read as follows:

Sec. 1. All moneys received by the board of state fair directors to the credit of the Oregon state fair, other than money appropriated from the state treasury for such purpose, shall be paid over by the secretary of said board of directors to the treasurer thereof, who shall deposit the same in a bank to be designated by said board to the credit of the board of state fair directors, and shall be disbursed upon cheques signed by the president and countersigned by the secretary of said board. (All accounts of receipts and disbursements of the board of state fair directors shall be audited by the secretary of state annually during the month of December, who shall make a report of such audit in triplicate, filing one triplicate thereof with the governor, one with the secretary of the state fair board and retain the third in his own office.)

Section 4. That paragraph 2 of section 2,717, Oregon Laws, and chapter 413, General Laws of Oregon, 1927, be and the same are hereby repealed.

## *Bulletin of American Institute of Accountants*

Oregon house bill No. 144, which was mentioned in the February *Bulletin*, has been withdrawn. Its subject was generally similar to that of house bill No. 291.

### **South Dakota**

In South Dakota a bill has been introduced to transfer to the general fund of the state moneys in the board of accountancy fund, as well as in the executive accountants' fund and the audits and accounts fund. This is senate bill No. 151.

### **Tennessee**

Senate bill No. 519, in Tennessee, provides for the appointment of certified public accountants as field auditors of the books, records and accounts of certain county officers and departments. The bill would require semi-annual audits of such records. Compensation of auditors would be at regular per-diem rates as approved by the Tennessee board of accountancy.

### **Texas**

Texas senate bill No. 203, requiring that accounts of incorporated towns be audited, passed the senate February 27th.

House bill No. 664, which provides for appointment of auditors of certain counties, has passed both house and senate.

### **Utah**

A bill providing that counties publish a statement of financial condition every January passed the house of Utah February 18th. It is house bill No. 3.

### **Vermont**

Vermont senate bill No. 63, introduced March 1st, provides for appointment by the governor of a public-service accountant to assist the public-service commission.

### **Washington**

The two-class accountancy bill in the Washington legislature has passed the senate. Its designation is substitute senate 94. A brief description was given with the notice of introduction in the February *Bulletin*.

### **West Virginia**

House bill No. 45 in West Virginia, a two-class accountancy bill mentioned in the February *Bulletin*, has been reported favorably in the house. The bill is supported by the West Virginia Society of Certified Public Accountants.

### **Wyoming**

A regulatory accountancy bill, introduced in the Wyoming legislature as house bill No. 206, was killed in the house.

## **EMPLOYMENT EXCHANGE**

For several months the demand for staff assistants has been far in excess of the number of men available, but it is expected that the reverse will soon be true. The unfortunate seasonal fluctuation in volume of accounting practice will no doubt result in idleness of a large number of accountants who have been serving in temporary capacities during the busy season. Many of these men will doubtless apply to the Institute for positions and firms are reminded that during the brief period of abundance of applicants there is often an excellent opportunity to select well qualified men for permanent staff places.

Private concerns whose requirements are not subject to such marked fluctuations as

those of professional firms will find a wider selection among accountants available for private positions directly after March 15th than at any other time of the year. If members of the Institute know of such positions which are open in the offices of clients, the employment exchange would be glad to learn of them.

The opinion seems to exist that the past season has been characterized by unusual difficulty in obtaining good staff assistants, especially young men who could be ranked as excellent semi-seniors. Several persons have expressed the fear that this noticeable decline in the supply may be indicative of a tendency which within a few years may create a serious condition.

## *Bulletin of American Institute of Accountants*

At present the following applicants are among those available for employment:

No. 11A—Member, American Institute of Accountants, is seeking position of greater responsibility than that of senior accountant. Age 41. Fifteen years' accounting experience. C. P. A. and chartered accountant. Salary open. Now in New Jersey.

No. 23A—Senior accountant, age 37, now in Florida, wishes position in another state. Six years' public accounting experience. Salary about \$250.

No. 39A—Member, American Institute of Accountants, seeking executive accounting position in public accounting firm or private concern. C. P. A. of New Jersey, New York and Pennsylvania.

Twenty years' public accounting experience. Salary about \$5,000. Resides in New Jersey.

No. 44A—Associate, American Institute of Accountants. N. Y. U. graduate, C. P. A. Indiana, Tennessee, Florida, 6 years' public practice and 2 years' utility accounting, desires position as traveling auditor. Speaks Spanish, single, willing to travel anywhere. Salary open.

No. 45A—Senior accountant now in Florida wishes position in any other part of the country. Age 40. Twenty years' accounting experience. Salary \$250-\$300.

The Institute has not investigated statements of applicants and assumes no responsibility for their accuracy.

## HERE AND THERE

G. R. Snyder & Co., Chandler building, Washington, D. C., announce the admission of George J. Henritzky to partnership in the firm.

Taylor & Duncan announce the opening of an office at 116 Morley avenue, Nogales, Arizona.

A. van Oss announces that he has opened an office for the general practice of accountancy at 110 William street, New York.

Harold C. Anderson spoke at a meeting of the District of Columbia Institute of Certified Public Accountants at Washington, D. C., December 19th, on "Inventory verification."

On December 29, 1928, John P. Begley, Omaha, Nebraska, read a paper entitled "Accountancy as a profession" as part of the educational programme fostered by Creighton University over radio station WOW.

"Simplified cost methods as the most practical means of determining labor costs in textile mills" was the text of an address by Clinton W. Bennett, Pawtucket, Rhode Island, before the Providence chapter of the National Association of Cost Accountants on January 14th.

A. J. Eby, Harrisburg, Pennsylvania, delivered an address before a meeting of

the Lemoyne, Pennsylvania, Parent-teachers Association, January 7th, on "Financial habits" and on February 13th he spoke on "Professional qualifications" at a meeting of the Accountants' club of Harrisburg. Mr. Eby has recently been appointed to the panel of arbitrators of the American Arbitration Association and is serving as chairman of the 1929 programme committee of the Harrisburg Exchange club.

At a recent meeting of the Newark chapter, National Association of Cost Accountants, James J. Hastings was elected president for the ensuing year.

"Retail accounting problems" was the subject of an address delivered by D. S. Jeppson of Honolulu on December 18th before the Hawaii chapter of the National Association of Cost Accountants.

Wayne Kendrick, Washington, D. C., recently spoke before the Brookland Citizens Association with regard to the Washington community chest. Mr. Kendrick has been serving on the educational committee of the Y. M. C. A., on the fellowship committee of the Rotary club, on the house committee of the City club and on the municipal finance committee of the Washington board of trade.

George A. Treadwell, New Orleans, has been appointed chairman of the postal-affairs committee of the New Orleans Association of Commerce.

# BULLETIN

OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS  
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APRIL 15, 1929

SERIES B, No. 60

## Council Meeting

Routine business matters occupied most of the attention of the council of the American Institute of Accountants at its semi-annual meeting, April 8th, at the offices of the Institute, 135 Cedar street, New York.

The committee on meetings reported that the Hotel Carlton had been selected as headquarters for the annual meeting of the Institute at Washington, D. C., September 17 and 18, 1929.

The council, at the request of the special committee on terminology, appropriated funds for the republication in book form of definitions of accounting terms which the committee had contributed to *The Journal of Accountancy*.

Applicants for admission to the Institute who were recommended by the board of examiners were elected.

## New England Regional Meeting

A regional meeting of the American Institute of Accountants will be held at Boston on May 6th. The meeting is open to all persons who are interested in accountancy, whether members of the Institute or not.

The tentative programme provides for one or two technical papers at the morning session, which will also include a short business meeting. It is planned to have buffet luncheon served at a country club, where the afternoon may be spent at golf and other outdoor activities. The dinner will take place in Boston. George O. May will be the principal speaker. His subject has not yet been announced.

The New England regional officers are Charles F. Rittenhouse, chairman, Percival

F. Brundage, secretary, and Arthur T. Chase, treasurer.

A local committee on arrangements has been appointed by the president of the region for the special purpose of organizing the meeting of May 6, 1929. The members are as follows: S. L. G. Sutherland, chairman, Percival F. Brundage, Edward Fuller, Clifton W. Gregg, W. Webster McCann, Lee Perkins and Clarence B. E. Rosen.

A general committee has also been appointed which consists of the following members: Lewis G. Fisher, chairman, Harold C. Jordan, Walter A. Musgrave, Archie M. Peisch and James Willing.

## American Institute Examinations

Examinations of the American Institute of Accountants will be held May 16 and 17, 1929.

## Institute Officers Visit Many Cities

Following the meeting of council of the American Institute of Accountants at New York on April 8th, the president, Frederick H. Hurdman, and the secretary, A. P. Richardson, left for Cincinnati, where they had been invited to attend a meeting of accountants on April 10th. From there they proceeded to Louisville, where another meeting of members of the Institute and other accountants had been arranged for April 11th. Their plans at that time provided for subsequent visits to Indianapolis on April 12th; St. Louis, April 13th; Kansas City, Missouri, April 15th; Omaha, April 16th; Minneapolis, April 18th, and St. Paul, April 19th.

## **Institute Officers to Attend Virginia Meeting**

The president and the secretary of the American Institute of Accountants have accepted invitations to attend the semi-annual meeting of the Virginia Society of Public Accountants to be held at the Cavalier hotel, Virginia Beach, Virginia, May 17 and 18, 1929.

## **Placements Committee Asks Coöperation of Institute Members**

On April 12th a circular letter was sent by the Institute's special committee for placements to firms throughout the country having one or more partners who are members or associates of the Institute.

This letter attempted to show the advantage of employing college graduates as permanent junior assistants, and asked that any firms in need of such men at least give consideration to applicants to the bureau for placements who may be available. Firms which consent to be placed upon the bureau's mailing list will be sent applications and may ask to interview any applicant whose record and qualifications seem promising.

Attached to the letter to firms was a list of 39 firms which have taken 132 men from the bureau since its origin in March, 1926. The experience of these firms, with hardly an exception, confirms the belief which actuated the committee's efforts from the beginning, that college graduates, carefully selected after investigation by the Institute, make excellent staff accountants.

There has been a noticeable scarcity of good semi-senior assistants during the past winter season and some firms believe that the dearth of young men of the right type is increasing annually. The bureau hopes that its efforts will to some extent offset this serious tendency.

During the past few months representatives of the committee have visited several colleges to talk with seniors interested in accountancy as a career. Such discussions have been held at Yale, Harvard, Pennsylvania, Dartmouth, University of New Hampshire, Denison, Franklin and Marshall, University of North Carolina and University of Vermont, and others are planned for the near future.

More applications are expected this year than ever before. The bureau has been in communication with 140 colleges in all parts of the country and many application forms have already been distributed. The second edition of the bureau's pamphlet describing the offer to college graduates, of which 10,000 copies were printed in 1927, has been entirely exhausted and a third edition was printed early this month.

A number of the men who apply will probably be available early in July. Others will doubtless prefer to commence work in the fall. There are men who will go to almost any city of commercial importance.

It is of tremendous assistance to the bureau that firms indicate well in advance the probable number of men they will need at any particular time. There is, of course, no obligation upon any firm to accept applicants who may be referred to it, but if there is a possibility of a firm's employing one or more of the bureau's men it is helpful, in estimating requirements, to have the information ahead of time.

The terms of engagement under the plan of the bureau have been published often, but they are repeated here for the information of members who have not heretofore given the matter consideration:

1. Applicant to be employed with the understanding that he will not be discharged for at least three years if his work is satisfactory; that is, he is not to be discharged because of a dull season.
2. Applicant agrees to stay with firm for at least three years.
3. Initial salary, \$125 a month. Increases to be arranged by parties concerned.
4. Firms contribute \$50 for each applicant employed. No fee is charged applicants.

## **Institute to Be Represented at Annual Meeting U. S. Chamber of Commerce**

The seventeenth annual meeting of the Chamber of Commerce of the United States of America will be held from April 29th to May 3rd, at Washington, D. C.

F. H. Hurdman, president of the Institute, has been appointed as the Institute's national councillor. Edward E. Gore is substitute national councillor. The following delegates have also been appointed to represent the Institute at the meeting: P. L. Billings, C. C. Croggon, G. Wilson MacDow, D. H. McCollough, W. R. Tolleth and Edwin H. Wagner.



## **Tax Returns Prepared by C. P. A.'s Accepted as Correct**

Under the new Arkansas income-tax law passed at the recent session of the legislature, a tax return prepared by a certified public accountant who certifies that he has audited the taxpayer's records for the income year will be accepted as prima facie true and correct.

The law was introduced as house bill No. 58 and was approved by the governor March 9th. The provision in question is article 5, section 25, paragraph 3, which reads as follows:

"Whenever a return is filed and a certified public accountant, duly authorized under the law of Arkansas, certifies that he has made an audit of the taxpayer's records for the income year and has prepared the return to which his certificate is attached, such return shall be accepted by the commissioner as prima facie true and correct."

Article 6, section 30, paragraph 7 of the same law provides that any certified public accountant who makes a false certificate to any return as filed and offered to the commissioner pursuant to the provision quoted shall be guilty of a felony and shall, upon conviction, be liable to fine or imprisonment, and his certificate shall be canceled and revoked.

## **Violations of Treasury Regulations Must Be Reported by Employees**

Attention is drawn in the February issue of *Internal Revenue News* to a provision in department circular No. 230, as revised July 1, 1927, that officers or employees of the treasury department are required to report violations of the laws and regulations for practice before the treasury department. The announcement is considered necessary because this requirement, although included in the first regulations issued in 1921, was omitted in the regulations revised in 1923, and in some quarters the omission was construed by field examiners and other representatives of the department as relieving them of the duty of reporting violations.

The regulations now in force leave no doubt of the duty of treasury-department

employees to report to the committee on enrolment and disbarment any forbidden conduct on the part of practitioners.

## **Publicity of Tax Refunds**

Amended regulations with reference to the publication of income-tax refunds and rebates were issued by the secretary of the treasury, March 19th. The following regulation was issued:

"The commissioner of internal revenue shall cause to be prepared a written decision in every case in which an overassessment (whether resulting in a refund, credit or abatement) of an income, war-profits, excess-profits, estate or gift tax is allowed, in excess of \$20,000, and such decision shall be considered a public record, and shall be open to inspection, during the regular hours of business, in the office of the commissioner of internal revenue or such office as he may designate. Such decision shall give the amount of the overassessment and shall be accompanied by a brief summary of the relevant facts and a citation of the authorities applicable thereto, or, in a case in which a decision of a court or of the board of tax appeals has become final, by a citation of the court or board decision. Under no circumstances shall the provisions of this paragraph be construed as making any return, or any part thereof, open to inspection, or as authorizing the source of any income, gains or profits, or the specific transactions resulting in losses or expenditures, to be made public; nor shall any of the information contained in any return or relating thereto be made public except in accordance with, and to the extent necessary in carrying out these regulations."

## **Institute of Accountants and Actuaries in Glasgow**

The annual report of the council of the Institute of Accountants and Actuaries in Glasgow for 1928 shows that at December 31, 1928, the membership of the institute was 1,704.

## **Railway Accounting Officers Association**

The forty-first annual meeting of the Railway Accounting Officers Association will be held at the Hotel Cleveland, Cleveland, Ohio, April 30 to May 3, 1929. The agenda for the meeting have been published in advance, together with membership lists, by-laws, obituary notices and index, in a printed bulletin of 294 pages.

A pamphlet by D. J. Hornberger entitled "No-par stock and the public utilities" has

recently been issued by the bureau of business service of Ohio Wesleyan University.

## STATE LEGISLATION

The most noteworthy feature of the legislative sessions of 1929, as far as accountancy is concerned, is the passage of the Smith-Williams bill in New York. This act was drafted and sponsored by the New York State Society of Certified Public Accountants. It contains several novel features, concerned chiefly with administrative procedure in the supervision of certified public accountants. The act is reprinted in full elsewhere in this *Bulletin*.

New accountancy bills, most of them of the two-class variety, were defeated or failed to pass before adjournment in Kansas, Oklahoma, Oregon, Washington, West Virginia and Wyoming. Regulatory bills are still under consideration in Iowa and Ohio as this *Bulletin* goes to press.

Amendments to existing accountancy laws have been proposed in California, Illinois, Indiana, Maryland, North Carolina and Tennessee.

According to latest reports the legislatures of the following states have adjourned: Kansas, Indiana, Maryland, Montana, Nevada, New Mexico, New York, North Carolina, North Dakota, Oklahoma, Oregon, South Dakota, Utah, Washington, West Virginia and Wyoming.

In the following paragraphs are reports of bills introduced since publication of the March *Bulletin*, or of recent action on bills mentioned in previous issues.

### California

A bill in California creating an accountancy fund in the office of the state treasurer, senate bill No. 44, has passed both houses of the legislature and has been approved by the governor. The bill would amend the accountancy law of the state, providing that the state board of accountancy remit to the state treasurer the unencumbered balance of all moneys in possession of the board, which would be credited to a fund to be known as the state accountancy fund. After the passage of the bill all receipts of the board of accountancy would be paid into this fund and from it necessary expenditures would be made in accordance with the law.

California house bill No. 706, providing for a uniform system of accounting for reclamation districts which have outstanding

bond issues, was reported favorably in the senate, March 25th.

Senate bill No. 488, which is concerned with a uniform system of accounting for junior colleges, passed the senate March 21st and has been reported favorably in the house.

### Delaware

House bill No. 46 in Delaware would authorize adoption of a system of accounting for the city of Wilmington.

### Illinois

House bill No. 454 in the Illinois legislature would amend the present accountancy law in order that auditors of farmers' coöperative associations and of trade organizations might be eligible for registration as public accountants without examination. The bill is before the committee on judiciary in the house.

House bill No. 410 would regulate the method of dealing with local financial accounts, audits and reports which would be under the jurisdiction of the state auditor of public accounts. The same or a similar bill was introduced in the senate under the designation of senate bill No. 263.

### Indiana

House bill No. 154 in the Indiana legislature passed both houses of the legislature and was approved by the governor on March 11th. It provides that finance companies not organized under Indiana laws shall render annual reports to the state auditor, and it also levies a tax on such companies for the right to do business. The legislature of Indiana adjourned March 12th.

### Iowa

Following a conference between certified and non-certified public accountants in Iowa, the accountancy bill known as house bill No. 207 was amended in several respects. The waiver provision was eliminated, as well as the provision for submission of thesis instead of examination. In view of these amendments the Iowa Society of Certified Public Accountants withdrew its opposition. The bill still would permit accountants in

practice for a specified length of time to take oral examination for the C. P. A. certificate. Another amendment would require every person granted a certificate to practise accountancy under the act to give a \$5,000 bond to the state auditor. The bill passed the house March 22nd and has been reported favorably in the senate.

Senate bill No. 477 provides that the annual audit of the accounts of the state highway commission be made by accountants from the office of the director in conjunction with a certified public accountant.

### **Maryland**

Maryland senate bill No. 291 has passed both houses of the legislature and awaits the governor's action. The bill would permit accountants who were fully qualified on January 1, 1924, for registration as public accountants, to register as such at any time prior to August 1, 1929. The bill is opposed by the Maryland Association of Certified Public Accountants and by the state board of accountancy.

House bill No. 584 would also amend the accountancy law by changing the provision relating to educational requirements of candidates for the C. P. A. certificate. Under the bill the board of examiners would be required to give an applicant an oral examination for the purpose of determining whether or not he had the equivalent of a high-school education.

### **Minnesota**

State officers and departments would be empowered to accept the reports of certified public accountants of the state by house bill No. 1053 in the legislature of Minnesota. It is under consideration by the committee on civil administration.

### **Missouri**

Certified public accountants would be engaged to audit biennially the books of the state auditor and the treasurer under the provisions of senate bill No. 750 in the Missouri legislature. The appointment of the accountants would rest with the governor.

### **Montana**

Montana house bill No. 141 regarding the inspection of corporation records, mentioned

in the March *Bulletin*, was killed in the house. The same fate befell house bill No. 276, authorizing the state auditor to prescribe a system of accounting for subdivisions of the state. The Montana legislature adjourned sine die March 8th.

### **Nevada**

Nevada house bill No. 29 passed both houses of the legislature and was approved by the governor on March 13th. It requires the state auditor to audit accounts of state offices, departments and institutions, and to prescribe a uniform system of accounting for them.

A bill providing for the engagement of certified public accountants to audit annually the accounts of state, county or town officers who handle public funds was introduced February 26th under the designation senate bill No. 78. It passed the senate on March 19th. The legislature of Nevada adjourned on March 23rd.

### **New Jersey**

Senate joint resolution No. 6 in New Jersey was approved by the governor on March 12th. The text of the resolution was published in the *Bulletin* for March 15, 1929.

Senate joint resolution No. 15, introduced March 19th, would appropriate an additional \$50,000 to carry out the provisions of the law which was originally joint resolution No. 6, providing for audits of accounts of state departments and for devising a more efficient system of accounting for them. The original bill also provided an appropriation of \$50,000. The new bill has passed the legislature and has been sent to the governor.

### **New York**

Following is the text of the new accountancy law of New York state, sponsored by the New York State Society of Certified Public Accountants and signed by the governor on April 3rd. The act has become chapter 261 of the laws of 1929.

AN ACT TO AMEND THE EDUCATION LAW, IN RELATION TO THE PUBLIC PRACTICE OF ACCOUNTANCY BY CERTIFIED PUBLIC ACCOUNTANTS.

THE people of the state of New York, represented in senate and assembly, do enact as follows:

Section 1. Article fifty-seven of chapter twenty-one of the laws of nineteen hundred nine, en-

titled "An act relating to education, constituting chapter sixteen of the consolidated laws," as amended by chapter one hundred and forty of the laws of nineteen hundred ten, as such article was added by chapter eighty-five of the laws of nineteen hundred twenty-seven, is hereby repealed and a new article fifty-seven added in place thereof, to read as follows:

ARTICLE 57

CERTIFIED PUBLIC ACCOUNTANTS

Section 1489. Definitions.

- 1490. Board of certified public accountant examiners.
- 1490-a. Qualifications and expenses.
- 1490-b. Organization and meetings of the board.
- 1490-c. Receipts and disbursements.
- 1490-d. Records.
- 1491. Council on accountancy.
- 1492. Certified public accountants.
- 1492-a. Indorsements of certificates of other states.
- 1493. Penalties and their collection.
- 1494. Revocation or suspension.
- 1494-a. The same.
- 1494-b. Revocation of indorsements.
- 1495. Committee on grievances.
- 1495-a. Jurisdiction of committee.
- 1495-b. Proceedings before committee.
- 1495-c. Subpoenas, oaths, evidence.
- 1495-d. Order of certiorari.
- 1495-e. Disqualifications.
- 1495-f. Removal from office.
- 1495-g. Rules and regulations.
- 1495-h. Certificates of dismissal of charges.
- 1495-i. Suspensions in certain cases.
- 1496. Reissue of certificates.
- 1496-a. The same.
- 1496-b. The same.
- 1497. Copartnerships.
- 1498. Department supervision.
- 1498-a. The same.
- 1499. Effect of invalid provisions.

Section 1489. Definitions. As used in this article: (1) "Department" means the education department of the state of New York, as constituted by the education law; (2) "regents" means the board of regents of the University of the State of New York; (3) "council" means the council on accountancy which may be constituted by section fourteen hundred and ninety-one of this article; (4) "committee" means the committee on grievances constituted by section fourteen hundred and ninety-five of this article; (5) "board" means the board of certified public accountant examiners constituted by section fourteen hundred and ninety of this article; (6) the public practice of accountancy within the meaning of this article is defined as follows: A person engages in the public practice of accountancy who, holding himself out to the public as an accountant, in consideration of compensation received or to be received by him, offers to perform or does perform, for other persons, services which involve the auditing or verification of financial transactions, books, accounts or records, or the preparation, verification or certification of financial, accounting and related statements intended for publication or for the purpose of obtaining credit,

or who, holding himself out to the public as an accountant, renders professional services or assistance in or about any or all matters of principle or detail relating to accounting procedure or the recording, presentation or certification of financial facts or data.

Sec. 1490. Board of certified public accountant examiners. There is hereby created a board of certified public accountant examiners, consisting of at least five members, who shall be appointed by the regents within sixty days after this article becomes effective. The members of the board first appointed hereunder shall be appointed to serve for the following terms, respectively: One member for one year; one member for two years; one member for three years; one member for four years; and one member for five years. On the expiration of each of said terms the term of office of each newly appointed or reappointed member of the board shall be for a period of five years. In addition the regents may at any time appoint such number of additional members of the board, for terms to be fixed by the regents, but not exceeding five years each, as the regents may deem reasonably necessary for the efficient and expeditious performance of the duties of the board. The total number of members of the board shall be an odd number. The regents may remove any member of the board from office who shall have been found guilty, after due notice and a hearing, of misconduct, incompetency or neglect of duty in office. Vacancies in the membership of the board, however created, shall be filled by appointment by the regents for the unexpired term, but no vacancy shall be deemed necessarily to exist so long as there shall be five members of the board in office.

Sec. 1490-a. Qualifications and expenses. Each member of the board shall be a citizen of the United States and a resident of the state at the time of his appointment. He shall have been engaged in the public practice of accountancy for at least five years, and shall have been a certified public accountant for at least two years. Each member of the board shall receive reasonable compensation, to be fixed by the regents, for attending sessions of the board and for the time spent in examining applicants for the certificate of certified public accountant under this article, and in necessary travel, and in addition shall be reimbursed for all necessary travel and other actual expenses incurred in carrying out any of the provisions of this article. Each member of the board shall receive a certificate of appointment from the regents and before entering upon his term of office shall file with the secretary of state the constitutional oath of office. The regents shall have power to employ a clerk and such deputy clerks as may be reasonably necessary to assist the board in the keeping of its records and in the performance of its duties. The salaries of the said clerk and deputy clerks respectively shall be fixed by the regents. The board shall have power, subject to approval by the regents, to make such rules, not inconsistent with law, as may be reasonably necessary in the performance of its duties.

Sec. 1490-b. Organization and meetings of the board. The board shall hold a meeting within thirty days after its members are first appointed, and thereafter shall in the month of May in each

year hold a regular annual meeting, at which it shall elect from its members a chairman, a vice-chairman and a secretary. Other regular meetings shall be held at such times as the rules of the board may provide, and such special meetings shall be held as may be necessary or advisable in the judgment of the board, or a majority thereof, or upon the call of the department. Notice of all meetings shall be given in such manner as may be provided in said rules. A quorum of the board shall consist of a majority of its members.

Sec. 1490-c. Receipts and disbursements. All moneys derived from and through the operation of this article shall be paid over to the department, which shall pay therefrom all expenses incurred in carrying out the provisions of this article and annually shall pay into the treasury of the state any portion of the moneys so received which may remain after the payment of said expenses.

Sec. 1490-d. Records. The board shall keep a written record of its proceedings. The department shall keep a register of all applicants approved for the certificate of certified public accountant by the board, showing with respect to each applicant his name, age, education and other qualifications, place of business and place of residence, whether or not an examination was required, and whether the application was refused or a certificate of certified public accountant issued to the applicant, and the date of such action. The department shall also keep a register of all copartnerships to which certificates of registration shall be issued pursuant to section fourteen hundred and ninety-seven of this article. In any civil or criminal action, prosecution, trial, hearing or proceeding arising out of or founded upon any provision of this article, the books and registers of the department, or a certificate as to the contents thereof, bearing the seal of the department and signed by the commissioner or an assistant commissioner of education, shall be prima facie evidence of all matters stated therein.

Sec. 1491. Council on accountancy. The regents may at any time appoint a council on accountancy to advise with the department, the board and any other public officers concerning any and all matters within the purview of this article and the enforcement thereof. The persons so appointed shall be certified public accountants eminent in the profession of accountancy. They shall serve without compensation. They shall hold office for three years or until the appointment and qualification of their successors respectively. The regents may fill any vacancies in the council by appointment for the unexpired term. The council shall elect one member thereof as chairman and another member thereof as secretary. Meetings of the council may be held at any time and place appointed by the commissioner or an assistant commissioner of education, or upon the call of any three members of the council or at the request of a majority of the board. A majority of the council shall constitute a quorum.

Sec. 1492. Certified public accountants. The certificate of certified public accountant shall be issued, upon application to the department and the payment of a fee to be fixed by the department, which fee is to accompany the application, to any citizen of the United States, or to any person who has declared his intention of becoming such citizen,

who resides within the state or has a place for the regular transaction of business therein, who is twenty-one years of age or over and of good moral character, who submits evidence satisfactory to the department of the possession of academic and professional qualifications for the public practice of accountancy and who passes the examination required by the department; provided, that the certificate of certified public accountant issued to any person who has declared his intention of becoming a citizen of the United States shall become void at the expiration of eight years from the date of the declaration of the intention of such applicant to become a citizen, unless prior to the expiration of said eight years evidence is furnished to the department that the applicant has become a citizen of the United States.

Sec. 1492-a. Indorsements of certificates of other states. The department may, in its discretion, upon recommendation of the board and the submission of evidence of professional qualifications as hereinafter in this section provided, and without examination, but otherwise subject to the academic and professional qualifications mentioned in section fourteen hundred and ninety-two of this article, and the rules of the regents promulgated thereunder, including the payment of a fee to be fixed by the department, indorse a certificate of certified public accountant issued by the proper authorities of any other state or political subdivision of the United States to any citizen or person who has declared his intention of becoming a citizen thereof, provided that the applicant for such indorsement, since receiving such certificate, has been engaged in the public practice of accountancy for three years or more in one or more of the states or political subdivisions of the United States, either on his own account or as a member of a copartnership or as an employee of any person engaged in the public practice of accountancy, and such applicant is actually so engaged at the time of application for indorsement, and is in good and regular standing as a certified public accountant in each state or political subdivision of the United States from which he has ever received a certificate of certified public accountant. Such indorsement shall be equivalent to a certificate of certified public accountant of the state except as otherwise provided in this article. Such indorsement shall become void in the case of any person not a citizen of the United States at the expiration of eight years from the date of his declaration of intention to become a citizen.

Sec. 1493. Penalties and their collection.

(1) Any person who shall

(a) Sell or fraudulently obtain or furnish any certificate or indorsement of any certificate of certified public accountant, or aid or abet therein, or

(b) Engage in the public practice of accountancy as a certified public accountant by virtue of any certificate or indorsement of any certificate of certified public accountant illegally or fraudulently obtained by such person, or issued unlawfully, or by reason of any fraudulent representation or mistake of fact in a material regard, induced by such person, or

(c) Hold himself out as authorized to engage in the public practice of accountancy as a certified public accountant under a false or assumed name; or

(2) Any person, who, not being a certified public accountant of the state, shall

(a) Hold himself out to be engaged in the public practice of accountancy within the state as a certified public accountant, or

(b) Use in connection with his name any title or designation tending to imply that he is engaged in the public practice of accountancy as a certified public accountant within the state; or

(c) Use the title "certified public accountant," or any abbreviation thereof or the letters "C. P. A.," in connection with his name, or with any trade name or in the conduct within the state of any occupation or profession involving or pertaining to the public practice of accountancy; or

(3) Any person, who, during the time his certificate or the indorsement of his certificate as a certified public accountant shall be void, revoked or suspended pursuant to this article, shall engage within the state in the public practice of accountancy as a certified public accountant, shall be guilty of a misdemeanor. Any such misdemeanor shall be punishable by imprisonment for not more than one year, or by a fine of not more than five hundred dollars, or by both such fine and imprisonment for each separate offense.

(4) All courts of special sessions within their respective territorial jurisdictions are hereby empowered to try, hear and determine such misdemeanors without indictment, and to impose the penalties herein prescribed.

(5) Such misdemeanors shall be prosecuted by the district attorney of the county wherein the same are committed, or, if committed in two or more counties, then by the district attorney of any one of such counties, and at any time the attorney-general may supersede any district attorney in the prosecution of any such misdemeanor in any county.

(6) In addition to the criminal liability, imprisonment and fine above provided, a civil penalty is hereby prescribed and imposed, which shall be one hundred dollars for each such offense hereinbefore defined, to be recovered by the attorney-general in an action against the person or persons, including corporations, who have committed any such offense or offenses, which action shall be maintained in the name of the people of the state. Such civil penalty shall be cumulative, and when any such offense or offenses shall be committed in whole or in part upon more than one day, such civil penalty shall be recoverable for each such day.

(7) The attorney-general, with the consent of the commissioner of education, may compromise claims for such penalties, and accept less than the amount claimed, or due, before or after an action has been begun. No compromise may be made, however, after a decision made or verdict rendered, except pursuant to section thirty-four of the state finance law.

(8) Notwithstanding the provisions of any other general, local or special law, all penalties, fees, and other moneys derived from the operation of the provisions of this article shall be paid to the department, and shall be available to the department together with the appropriations made from time to time by the legislature, for the payment of all salaries and other proper expenses incurred in the administration and enforcement of the provisions of this article, including a sufficient amount to pay the salaries or other compensation of such deputies, special deputies or assistants as the attorney-general shall assign for the enforcement of this article. On

the thirtieth day of June, beginning in the first year after this act takes effect and each year thereafter, the department shall pay any balance of such sums remaining in their hands into the state treasury.

(9) The display or uttering within the state of a card, sign, advertisement or other printed, engraved or written instrument or device bearing a person's name in conjunction with the words "certified public accountant," or any abbreviation thereof, or the letters "C. P. A." shall be prima facie evidence in any prosecution, proceeding or hearing that the person whose name is so displayed caused or procured the display or uttering of such card, sign, advertisement or other printed, engraved or written instrument or device and that such person is holding himself out to be a certified public accountant. In any prosecution or proceeding under this article, evidence of the commission of a single act prohibited by this article shall be sufficient to justify a conviction or the recovery of any civil penalty as the case may be without evidence of a general course of conduct.

Sec. 1494. Revocation or suspension. The regents shall revoke, or shall suspend for a term to be fixed by them, the certificate or the indorsement of the certificate of any certified public accountant who has been convicted of a felony under the laws of the state or of the United States, or of any misdemeanor as defined in this article, or of any atrocious crime in any jurisdiction.

Sec. 1494-a. The same. The regents shall also have power, upon the recommendation of the board, and after due notice and an opportunity to be heard, to revoke or suspend the certificate or the indorsement of the certificate of any certified public accountant who is found guilty by the board or a majority thereof, after due notice and a hearing, of any fraud or deceit in obtaining, either for himself or for any other person, either a certificate or an indorsement of a certificate of certified public accountant issued pursuant to this article.

Sec. 1494-b. Revocation of indorsements. The regents shall also have power, upon the recommendation of the board, and after due notice and an opportunity to be heard, to revoke or suspend the indorsement of the certificate of certified public accountant issued to any person pursuant to section fourteen hundred and ninety-two-a of this article, upon evidence that the duly constituted authorities of any state or political subdivision of the United States have lawfully revoked or suspended the certificate of certified public accountant issued to such person by such state or political subdivision.

Sec. 1495. Committee on grievances. Within sixty days after this act shall take effect the regents shall appoint a committee on grievances which shall consist of ten members, each of whom shall be a certified public accountant in good standing for at least ten years prior to his appointment. The term of office of each of said members shall be five years, except that upon the taking effect of this act two members shall be appointed for a term of one year; two members for a term of two years; two members for a term of three years; two members for a term of four years, and two members for a term of five years; and as such terms respectively expire the vacancies in the membership of the committee shall be filled by the appointment by the regents of two members whose

terms shall be five years from the expiration of the terms of their predecessors. Any vacancy caused by resignation, death or otherwise shall be filled by the appointment by the regents of a new member to serve for the unexpired term. The members of the committee shall serve without compensation. They shall at their first meeting, and thereafter annually, within ten days after the first day of January of each year, elect from their own number a chairman and a secretary. Seven members of the committee shall constitute a quorum.

Sec. 1495-a. Jurisdiction of committee. The members of the committee shall have jurisdiction to hear charges against certified public accountants for any fraud, deceit or gross negligence in the public practice of accountancy, and the regents may, upon the receipt from the committee of the record, findings and determination of the committee wherein and whereby any certified public accountant shall have been found guilty of any such fraud, deceit or gross negligence, and after due notice and an opportunity to be heard, revoke and annul his certificate or the indorsement of his certificate as a certified public accountant, or suspend him from practice as a certified public accountant, or reprimand him.

Sec. 1495-b. Proceedings before committee. Proceedings against any certified public accountant for any fraud, deceit or gross negligence in the public practice of accountancy shall be commenced by filing a written charge with the department, and if it shall appear to the department, after affording an opportunity to the complainant and respondent respectively to be heard, that there is probable cause to believe that the respondent has committed any fraud, deceit or gross negligence in the public practice of accountancy, the charge shall be referred to the chairman of the committee, who shall designate seven impartial members of the committee to hear the same, and he shall also fix a time and place for the hearing, and a copy of the said charge, together with a notice of the time and place fixed for the hearing, shall be served upon the respondent at least ten days before the date so fixed. At any such hearing the respondent may appear both in person and by counsel, make answer to the charge, produce witnesses and evidence on his own behalf, cross-examine witnesses and examine such evidence as may be produced against him. A stenographic record of the hearing shall be kept. The members of the committee before whom the hearing shall be held shall make a written report of their joint or several findings and recommendations, and the same shall be forthwith transmitted to the secretary of the committee with the stenographer's minutes and the evidence or a transcript thereof. If by a vote of a majority of the members of the committee before whom the hearing was held the respondent is found guilty of the charge against him, the committee shall transmit to the department the record, findings, recommendations and determination of the committee, and the regents, after giving the respondent due notice and an opportunity to be heard, shall in their discretion execute an order affirming, modifying or reversing such determination of the committee. Nothing herein contained shall be deemed to prevent the department from initiating or prosecuting any charges or proceedings in any case against any certified public accountant.

Sec. 1495-c. Subpoenas, oaths, evidence. The board or any member thereof or the committee or any member thereof may issue subpoenas to compel the attendance of witnesses, and may administer oaths, take testimony, hear proofs and receive exhibits in evidence in connection with or upon any hearing under this article or in any matter relating to the official duties of the board or the committee or which the board or the committee may lawfully investigate. It shall be the duty of the board or the committee respectively to issue subpoenas at the request of any certified public accountant against whom charges are to be heard by the board or the committee. The board or the committee shall not be bound by technical rules of evidence, but any determination shall be founded upon sufficient legal evidence to sustain the same. The department shall in its discretion furnish such records, advice and assistance to the board or the committee as may be requested by the board or the committee or may be deemed necessary by the department.

Sec. 1495-d. Order of certiorari. Any certified public accountant whose certificate or indorsement is revoked or who is suspended or reprimanded under any of the provisions of this article may have an order of certiorari to review such determination.

Sec. 1495-e. Disqualifications. No member of the committee shall participate in any way in the hearing or determination of any charges in which he may be either a complainant or a witness or a respondent or an implicated person, or in any case wherein any of the parties, either complainant or respondent or implicated, are related to him by consanguinity or affinity within the sixth degree. If for any reason three or more members of the committee shall be disqualified or otherwise unable to participate in the determination of any case, their places shall be temporarily filled for the purposes of such case by the appointment by the regents of temporary members of the committee, having the qualifications required by section fourteen hundred and ninety-five of this article, in place of the members disqualified or otherwise unable to participate.

Sec. 1495-f. Removal from office. The regents may remove any member of the committee from office who shall have been found guilty, after notice and a hearing, of malfeasance in office or of neglect of duty.

Sec. 1495-g. Rules and regulations. The committee shall have power to make such rules and regulations, not inconsistent with law or the rules of the regents, for the conduct of its duties and proceedings as it shall deem reasonably necessary.

Sec. 1495-h. Certificates of dismissal of charges. When a proceeding under this article has been dismissed the department shall issue a certificate to such effect.

Sec. 1495-i. Suspensions in certain cases. Whenever, after the exercise of due diligence, the board or the committee shall be unable to effect personal service of any notice of hearing under this article upon any certified public accountant, the regents shall have power to suspend the certificate or indorsement of the certificate of any such certified public accountant, if he shall fail to appear before the board or the committee within one week after notice to him by the department requiring such appearance by him shall have been published once in each week for three successive weeks in a news-

paper of general circulation in the county wherein he was last known to have resided or to have engaged in the public practice of accountancy and shall have been mailed to him at his last known post-office address.

Sec. 1496. Reissue of certificates. The regents may in their discretion reissue a certificate or indorsement of a certificate as a certified public accountant to any person whose certificate or indorsement shall have been revoked pursuant to section fourteen hundred and ninety-four of this article after pardon of such person by the president of the United States, or by the governor or other pardoning authority in the jurisdiction wherein the conviction was had.

Sec. 1496-a. The same. The regents may also, upon recommendation of the board, reissue a certificate or indorsement as a certified public accountant to any person whose certificate or indorsement shall have become void pursuant to sections fourteen hundred and ninety-two or fourteen hundred and ninety-two-a of this article, provided such person shall have become a citizen of the United States.

Sec. 1496-b. The same. The regents may also, upon recommendation of the board, reissue a certificate or indorsement as a certified public accountant to any person whose certificate or indorsement shall have been revoked pursuant to sections fourteen hundred and ninety-four-a or fourteen hundred and ninety-four-b of this article, or upon recommendation of the committee may reissue a certificate or indorsement as a certified public accountant to any person whose certificate or indorsement shall have been revoked pursuant to section fourteen hundred and ninety-five-a hereof.

Sec. 1497. Copartnerships. Nothing contained in this article shall be deemed to prohibit the use of the words "certified public accountants" in connection with the copartnership name of any copartnership engaged in the state in the public practice of accountancy, provided that such copartnership shall obtain from the department, upon the recommendation of the board, and upon the payment of a fee to be fixed by the department, a certificate that such copartnership has been registered by the department pursuant to this section. No such certificate shall be issued to any copartnership which has failed to comply with any provision of the partnership law applicable thereto, or with any provision of this section. Application for registration of any copartnership pursuant to this section must be made to the board upon the verified affidavit of a general partner of such copartnership who is a certified public accountant of the state in good standing. Such affidavit must set forth the copartnership name and the post-office address thereof within the state, and the address of the principal office thereof, wherever located, together with the name, residence and post-office address of each general or limited partner of such copartnership; and it must be made to appear to the satisfaction of the board that each partner resident or engaged within the United States in the public practice of accountancy is in good standing as a certified public accountant of one or more of the states or political subdivisions of the United States, and that each partner resident or engaged within the state in the public practice of accountancy is a certified public

accountant of the state in good standing, and that no state or political subdivision of the United States has revoked the certificate of certified public accountant of any partner of such copartnership for his misconduct. The regents shall have power in their discretion, or upon the recommendation of the board, after notice and a hearing, to revoke the registration of any copartnership pursuant to this section obtained by either misrepresentation or suppression of any material fact, or in case the certificate or indorsement of any partner thereof shall be revoked as provided in this article, or in case any other state or political subdivision of the United States shall for his misconduct revoke the certificate of certified public accountant issued to any partner by such state or political subdivision, or in case at any time such copartnership shall not have a partner who is a certified public accountant of the state in good standing and a resident of or regularly engaged within the state in the public practice of accountancy, or in case any partner of such copartnership who is not a certified public accountant of the state shall reside or engage within the state in the public practice of accountancy, or in case any person shall become a partner in such copartnership without notice thereof being given in writing to the department not later than one month thereafter. Whenever the registration of any copartnership pursuant to this section shall have been revoked, the proof of such registration shall not be admissible in evidence in any civil or criminal action, prosecution, trial, hearing or proceeding arising out of or founded upon any provision of this article with respect to any matter or thing occurring subsequent to the date of such revocation.

Sec. 1498. Department supervision. The provisions of this article shall be administered subject to sections forty-five and fifty-one of this chapter.

Sec. 1498-a. The same. Subsequent to January first, nineteen hundred and thirty-eight, every candidate for examination for a certificate as a certified public accountant shall present evidence that he has satisfactorily completed the course of study in a college or school of accountancy registered by the department as maintaining a satisfactory standard, and that prior to the beginning of his course of study in such college or school of accountancy he satisfactorily completed a four-year high-school course approved for this purpose or the equivalent as determined by the commissioner of education.

Sec. 1499. Effect of invalid provisions. If the courts of the state or of the United States shall adjudge any section or sections, provision or provisions of this article unconstitutional or void, then such determination shall affect only the section or sections or provision or provisions so adjudged to be unconstitutional or void, and shall not affect any other section or provision of this article.

Sec. 2. This act shall take effect immediately.

## North Carolina

House bill No. 1153 in North Carolina, which was intended to regulate licensing of public accountants, was reported unfavorably in the house prior to adjournment of



the legislature on March 19th. The bill provided that the board of accountancy issue certified public accountant certificates to persons licensed or entitled to be licensed on July 1, 1925, who at the date of passage of the act were licensed or registered public accountants. Service as auditor, internal-revenue inspector or internal-revenue agent of the treasury department would have been recognized as public accounting under the bill.

House bill No. 791, to amend the accountancy law of North Carolina by amplifying the definition of public accounting practice, passed both house and senate and was approved by the governor prior to adjournment. The new act reads as follows:

AN ACT TO AMEND SECTION ONE, CHAPTER TWO HUNDRED SIXTY-ONE OF PUBLIC LAWS OF ONE THOUSAND NINE HUNDRED TWENTY-FIVE, RELATING TO THE PRACTICE OF PUBLIC ACCOUNTING.

The general assembly of North Carolina do enact:

Section 1. That section one of chapter two hundred sixty-one of public laws of one thousand nine hundred twenty-five be and the same is hereby repealed and in lieu thereof the following be enacted:

"Section 1. The term 'practice of public accounting' as used in this act is defined as follows:

A person engages in practice as a public accountant, within the meaning and intent of this act: (a) who holds himself or herself out to the public in any manner as one who is skilled in the affairs of commerce and finance, and in the knowledge, science and practice of accounting as relating thereto, and as qualified to render professional accounting service for compensation; and/or (b) who, except as an employee of a public accountant, practices accounting, as distinguished from bookkeeping, for more than one employer; and/or (c) who offers to prospective clients to perform for compensation, or who does perform on behalf of clients for compensation, professional services that involve or require an audit or verification of financial transactions and accounting records; and/or (d) who prepares or certifies for clients, after verification or preparation, financial, accounting and related statements or reports which are to be used for publication or credit purposes, or are to be filed with a court of law or any other governmental agency, or for any other purposes; and/or (e) who, in general or as an incident to such work, renders professional assistance for compensation in any or all matters relating to accounting procedure and the recording, presentation and certification of financial facts."

Sec. 2. That all laws and clauses of laws in conflict with the provisions of this act are hereby repealed.

Sec. 3. That this act shall be in full force from and after its ratification.

Senate bill No. 447, requiring county officers to make contracts for auditing and standardizing bookkeeping systems in coun-

ties, passed both house and senate. The bill provides that at any time when an agency of the state proposes to engage certified public accountants the county government advisory commission shall be notified of the purpose and advise the officers concerned with reference to the scope of the audit and its nature and shall approve all contracts for such engagements.

House bill No. 44, the budget revenue bill of 1929, passed the house March 19th. It contains a provision for payment of an annual licence fee of \$25 by certified public accountants for the privilege of practice. The licence fee for public accountants would be \$10.

## **Pennsylvania**

Senate bill No. 179 in Pennsylvania, to regulate the audit of accounts of departments, boards, etc., of the state, passed the senate March 26th. The bill would give the auditor-general exclusive power to audit the accounts of the state or its subdivisions, although it would permit him to employ auditors as part of his administrative staff.

## **Tennessee**

A bill to amend the accountancy law of Tennessee by extending the time within which certain persons might register as public accountants was introduced in the senate under the designation of senate bill No. 905, on March 29th.

Senate bill No. 650, which is a general revenue bill, contains a provision for assessment of a privilege tax on public accountants. The tax would be assessed as follows: each person, firm or corporation in each county, per annum, \$20; each person, firm or corporation employing six and not more than ten auditors or accountants, in each county, per annum, \$50; each person, firm or corporation employing eleven and not more than fifteen accountants or auditors, in each county, per annum, \$75; each person, firm or corporation employing more than fifteen accountants or auditors in each county, per annum, \$100.

## **Texas**

Texas senate bill No. 203, which provides that the accounts of small incorporated

towns may be audited by auditors appointed by district judges, was reported favorably in the house March 8th. The bill had already passed the senate.

House bill No. 664 passed both houses of the legislature and was approved by the governor April 3rd. It provides that the commissioners' court in any county of specified minimum size may appoint a county auditor if it is considered a public necessity to do so.

House bill 599, introduced February 27th, provides that auditors be appointed by the governor on presentation of a petition signed by at least twenty-five voters for the purpose of auditing the affairs of the county in which such petitioners reside. The expense of such an audit would be borne by the state and the county. The bill would ap-

propriate \$5,000 to pay the state's portion of any such expense.

### **Utah**

Before the legislature of Utah adjourned on March 15th a bill providing that counties must publish statements of financial condition every January passed the house with slight amendment. It was known as house bill No. 3.

### **Washington**

The two-class accountancy bill which passed the senate of Washington, February 28th, was reported unfavorably in the house on March 9th. It was known as senate bill No. 94. The bill had the support of the Washington State Society of Certified Public Accountants. The legislature of Washington adjourned sine die March 15th.

## **STATE BOARDS OF ACCOUNTANCY**

### **Ohio**

Roy T. Bell of Youngstown, Ohio, who had been a member of the state board of accountancy for two years, died suddenly on March 22nd at Columbus. He was forty-five years of age.

### **Rhode Island**

At a recent meeting of the Rhode Island board of accountancy the following officers were elected: Ernest L. Goodman, chairman, Earl S. Clark, secretary, and Ralph R. Bradley, treasurer.

## **NEWS OF LOCAL SOCIETIES**

### **California State Society of Certified Public Accountants**

#### **SAN FRANCISCO CHAPTER**

Reynold E. Blight, California franchise-tax commissioner, spoke on the details of the new state franchise-tax law at a meeting of the San Francisco chapter, California State Society of Certified Public Accountants, April 5th. Mr. Blight's address was the first public explanation of the new law. New certified public accountants who were granted certificates on March 11th were guests at the meeting.

### **Maryland Association of Certified Public Accountants**

At a regular monthly meeting of the Maryland Association of Certified Public Account-

ants held at the Hotel Emerson, Baltimore, Raymond C. Reik delivered an address entitled "An accountant in foreign fields." In the course of his remarks Mr. Reik described his travels in Europe and South America.

### **Practical Questions Discussed at Massachusetts Society's Meeting**

At a meeting of the Massachusetts Society of Certified Public Accountants on March 25th, nine specific questions on accounting subjects were presented as a basis for discussion. The questions follow:

- (1) A trust estate, having a life tenant and a remainder-man, holds stock in a corporation which declares a dividend payable, at the option of the stockholder, either in cash or in stock. Is such a dividend income or principal?

- (2) Should the basis of valuation be stated for such balance-sheet items as inventory and investments in plant, or is it to be assumed in the absence of a contrary comment that the items are valued in accordance with sound accounting principles?
- (3) Under what circumstances, if any, should an accountant accept a place on the board of directors of a client company?
- (4) Under what circumstances, if any, would it be proper for an accountant employed by counsel for a defendant in a suit to accept an engagement as auditor of the accounts of the plaintiff?
- (5) Should containers or other articles used in connection with the shipping of a corporation's product and returnable at the option of the customer, be regarded as a current asset or as equipment?
- (6) Should the reserve for containers in customers' possession be shown on the balance-sheet as a current liability? If not, where should it be shown?
- (7) Under what conditions, if any, should treasury stock be shown as an asset on the balance-sheet?
- (8) How should growing trees, shrubs and perennials be classified in the balance-sheet of a nursery?
- (9) Should clients be billed upon the basis of actual time spent, computed at per diem rates, or upon the basis of a fee commensurate with the services rendered?

#### PROFESSOR GIVEN HONORARY MEMBERSHIP

William Morse Cole, professor of accounting at the graduate school of business administration of Harvard University, has been unanimously elected an honorary member of the Massachusetts Society of Certified Public Accountants.

#### New York State Society of Certified Public Accountants

"Benevolent organizations and their accountability to their supporters" was the subject of an address by Charles E. Mather at a meeting of the New York State Society of Certified Public Accountants, March 21st. At the invitation of the society, representatives of several benevolent organizations were present and they participated in the discussion which followed the address.

Mr. Mather stressed the danger of the assumption by the public that the auditor whose name appears at the bottom of a benevolent organization's financial statement has verified all the income, which

in most cases it is practically impossible to do. He recommended that the auditor's certificate make clear the limitations imposed on verification of income and he recommended either the publication or the deposit in trustworthy hands of a list of all subscribers. Such a list should be connected with the statement of accounts. He recommended also that contributors be encouraged to make subscriptions by cheque made payable to the organization rather than to any individual officer; that they examine endorsement on the cheque; and that they verify the fact that their names are included in the annual report and that the auditor's certificate links the list of subscribers with the cash statement.

Mr. Mather's paper will be published in an early issue of *The Journal of Accountancy*.

#### North Carolina Association of Certified Public Accountants

The tenth semi-annual meeting of the North Carolina Association of Certified Public Accountants will be held at the Oceanic hotel, Wrightsville Beach, North Carolina, June 24 and 25, 1929. W. C. Nichols is chairman of the committee in charge of arrangements.

#### Pennsylvania Institute of Certified Public Accountants

##### PHILADELPHIA CHAPTER

A regular meeting of the Philadelphia chapter of the Pennsylvania Institute of Certified Public Accountants was held at the Art club, Philadelphia, March 21st.

The subject of discussion was responsibility of accountants for the verification of inventories. Arthur T. Cameron, professor of accounting at the University of Pennsylvania, delivered the principal address.

##### PITTSBURGH CHAPTER

A business meeting of the Pittsburgh chapter, Pennsylvania Institute of Certified Public Accountants, was held on March 28th at the Hotel Henry. The meeting was preceded by a dinner.

Matters under consideration were a revised draft of the by-laws, proposed methods of publicity and election of new members.

## REVIEWS

### HENRY B. FERNALD—"RECENT CHANGES IN INCOME-TAX LAW AND PROCEDURE"

Address delivered at semi-annual convention of the Cost Association of the Paper Industry, New York, February 20, 1929. Published in *Pulp and Paper Profits*, March, 1929.

The revenue act of 1928 is in general intended to be substantially the same as preceding acts except for various special points, Mr. Fernald said. He added, however, that any revision of a law is apt to involve minor alterations which perhaps unintentionally change the meaning of certain provisions. One can never be certain, therefore, that there may not be important substantive alterations whenever a new statute is enacted. The delay in issuance of regulations of the bureau of internal revenue under the 1928 act seemed to the speaker to indicate that the treasury department's interpretation of many of the changes in the new law have been prepared carefully and at length. The courts' interpretation of prior revenue acts has not yet definitely clarified the meaning of old provisions, upon some of which the effect of provisions in the new law will depend.

Mr. Fernald mentioned four general classifications into which the various changes fall, as follows: (1) changes in form for consistency and facility in reference; (2) re-statement of provisions for the sake of improvement in consistency and grammar; (3) re-statement of provisions for the express purpose of clarifying what it is contended the prior law meant to say; (4) changes which are intended to be substantial alterations in the prior law.

There is probably a large number of taxpayers, Mr. Fernald said, whose affairs will be in no way affected by the changes in the 1928 revenue act, but there are many others who will find after careful examination that comparatively obscure changes in the act may directly affect their own particular circumstances. As an illustration, he referred to section 23 (k) and pointed out that the special provision regarding depreciation where life-tenant and remainder-men are concerned now applies to "property," whereas in the prior law it applied only to "improved real estate." The change of words may make an important difference to some taxpayers.

Mr. Fernald went on to mention the reduction in the rate of tax on corporations, the possibility of extension of time for filing the returns, the new provisions for consolidated returns for 1929 and subsequent years, and the re-statement of bases for computation of consolidated net income.

He particularly emphasized the changes in administrative provisions of the law, which are the most numerous and extensive of the alterations made. The reduction in tax rates, and particularly the fairly uniform rate which applies to corporations, have made taxpayers and government less concerned about peculiar technical questions. Consequently, the income-tax administration runs more smoothly than it formerly did. With the passage of time, also, many knotty points are finally settled and prolonged conflicts,

for instance as to basis for depreciation, depletion and inventories, which were necessary in prior years, may now be avoided.

The effort of representatives of the treasury department to effect the adoption of uniform rates of depreciation by various industries received comment from the speaker. While some trade associations have made agreements on this question, Mr. Fernald believed that the difficulty in setting uniform rates in any one industry is too great to indicate that the plan would be generally advantageous, particularly in view of the fact that reasonably satisfactory depreciation rates have already been established for most taxpayers after struggles of more or less intensity. The speaker did believe, however, that a general conference between taxpayers and the treasury department in an attempt to draw up improved general rules on the basis of which depreciation should be determined might produce sound principles for guidance in the future.

The speaker devoted the rest of his address to brief discussion of special points, such as the present situation with reference to the statute of limitations; treatment of March 1, 1913, surplus; dependents and their taxable status; etc.

### WILLIAM MAYORS—"THE ACCOUNTANT'S PROCEDURE IN THE VERIFICATION OF INVENTORIES"

Address delivered at a joint meeting of the St. Louis chapters of the Missouri Society of Certified Public Accountants and the Robert Morris Associates, January 22, 1929. Published in the Robert Morris Associates *Bulletin* for March, 1929.

The problem of inventory verification was called a most important current topic by Mr. Mayors and it was his opinion that the public accountant must shoulder more responsibility in the matter than has heretofore been the case. He did not advocate that inventory should be taken by the public accountant, which would be unnecessary, but he did affirm that accountants have the technical and analytical ability to prove the accuracy of the inventory items. Inventory is more often subject to manipulation than any other item on the balance-sheet, the speaker said, and the accountant should approach verification of this item with the purpose of disproving the figures submitted to him. With this point of view he will adopt negative methods of checking the inventory which, after a reasonable investigation of the factors of quality, value and accuracy of computation, should suffice to assure him whether or not the inventory is properly stated. Mr. Mayors then outlined in detail the audit procedure in verifying inventories and showed how by tests, checks of the client's inventory methods and examination of accounting records and other documents, the auditor may reach a satisfactory conclusion. It was also his opinion that all audit reports or certificates should contain a clear-cut statement regarding the inventory and he gave a sample certificate as an illustration.

## OBITUARY

### Herbert E. Jacobs

Herbert E. Jacobs, a charter member of the American Institute of Accountants and a member of the American Association of Public Accountants, died on November 19, 1928, after a brief illness. Mr. Jacobs was a certified public accountant of Massachusetts and a member of the Massachusetts Society of Certified Public Accountants. He had been associated with the firm of Patterson, Teele & Dennis for a period of nearly twenty years.

### Albert Edward Jordan

Albert Edward Jordan, an associate of the American Institute of Accountants, died March 13, 1929, after an illness of about two

months. Mr. Jordan was admitted to the Institute in 1928. He was a certified public accountant of California. At the time of his death he was 28 years old and was with the firm of Robinson, Nowell & Co., San Francisco, with which he had been associated for about six years.

### George Mahon

George Mahon, a charter member of the American Institute of Accountants, died suddenly several weeks ago at Lynchburg, Virginia, where he resided. He was a member of the American Association of Public Accountants, the Institute's predecessor, and a certified public accountant of Virginia. He was in the employ of the Craddock Perry Co., manufacturers, at Lynchburg.

## EMPLOYMENT EXCHANGE

It is of interest to note that some public accounting firms are said to have deliberately refrained from employing permanent staff assistants during the busy mid-winter season but after March 15th have commenced their efforts to obtain men worthy of permanent employment. This is a frank effort to take advantage of the seasonal fluctuation in accountancy practice and the consequent fluctuation in personnel.

In a recent survey of the records of the employment exchange it was found that a great many men could have been placed if well qualified applicants had been available. A large number of firms requested assistants through the exchange but in the majority of cases the applicants registered did not have sufficient experience or in some other way failed to meet the standard.

Few applicants from outside New York city have applied to the exchange although a considerable number of firms from various parts of the country has sought assistants from the Institute. Members in all places are requested to refer to the exchange any able staff assistants who are seeking employment.

Following is a list of some of the applicants now available:

No. 51A—Member, American Institute of Accountants, with 24 years' experience in public accounting.

Has been branch-office manager and principal of large firm. Age 45. Salary open. At present resides in New England. Will go anywhere.

No. 39A—Member, American Institute of Accountants, seeking executive position in public accounting firm or in private concern near New York. C. P. A. (N. Y., N. J. and Pa.). Twenty years' public accounting experience. Salary \$5,000.

No. 50A—Associate, American Institute of Accountants. Four years' public accounting experience as staff member and on own account. Is seeking permanent position with public accounting firm. Age 35, no objection to travel. Salary about \$4,000.

No. 44A—Associate, American Institute of Accountants, N. Y. U. graduate, C. P. A. (Ind., Tenn., Fla.), six years' public practice and two years' utility experience, desires position as traveling auditor. Speaks Spanish, single, will travel anywhere.

No. 53A—Senior accountant, 25 years of age. C. P. A. (D. C.) with 5 years' public practice, available for permanent position. Now in Washington, D. C. Will go anywhere. Salary \$4,000.

No. 24A—Senior accountant in New York with fourteen years' experience, 39 years old, seeking permanent or temporary staff position. No objection to travel.

No. 23A—Senior accountant, age 37, now in Florida, wishes position in another state. Six years' public accounting experience. Salary about \$250.

No. 52A—Semi-senior in New York, two years' public practice, seeks position in some other city.

The Institute has not investigated the statements of applicants and consequently disclaims responsibility for their accuracy.

## HERE AND THERE

Altschuler, Melvoin & Co. announce the removal of their offices to the Metropolitan building, 134 North LaSalle street, Chicago.

Beesley, Reeves & Wood, Salt Lake City, Utah, announce the removal of their offices to 609-12 Deseret Bank building.

Louis Hesse announces the removal of his office to 67 Wall street, New York.

Lybrand, Ross Bros. & Montgomery announce that Prior Sinclair has been admitted to partnership in the firm.

Naramore, Niles & Co. announce that the firm has been dissolved by mutual agreement. Oscar L. Niles will continue in practice under the name of Naramore & Niles at 1424 Lincoln-Alliance Bank building, Rochester, New York.

William B. Franke, Joseph E. Graef and Raymond J. Hannon announce the formation of a partnership under the firm name of Franke, Graef & Hannon, with offices at 271 Madison avenue, New York, and in Troy, New York.

Announcement is made of the dissolution of the firm of Redman, Hathaway & Co., Chicago.

George Armistead, acting as chairman of the fiscal survey committee of the fortieth legislature of Texas, wrote the report of his committee and delivered it to the governor and the forty-first legislature on February 12th.

The *Annals of the American Academy of Political and Social Science* published January, 1929, contain an article entitled "Does high protection hamper the repayment of our loans and investments abroad?" by George P. Auld, New York.

Sidney S. Bourgeois, jr. of New Orleans has been appointed consulting accountant for the Louisiana tax commission.

Arthur T. Cameron delivered an address entitled "The accountant's responsibility for inventories" at a meeting of the Phila-

delphia chapter of the Pennsylvania Institute of Certified Public Accountants held March 21st.

On February 25th J. D. M. Crockett addressed the Kansas City chapter of the National Association of Cost Accountants on "Income tax, federal and state."

"Statistical data useful to executives in conjunction with financial statements" was the subject of an address by T. G. Douglas, Atlanta, before a meeting of the National Paper Box Manufacturers Association held in Atlanta, February 20th.

DeWitt C. Eggleston delivered an address entitled "New York as a commercial center" at the College of the City of New York, March 14th. The address was broadcast over radio station NYC.

George O. May, New York, is the author of an article called "Carrier property consumed in operation and the regulation of profits," which appeared in the *Quarterly Journal of Economics* published in February, 1929.

Charles M. Neubauer, New York, spoke on accounting and analysis of balance-sheets at the Guaranty Trust Company in a course which Columbia University conducted. Mr. Neubauer recently addressed the accounting seminar at Columbia on financing installment sales.

John R. Ruckstell, past president of the American Institute of Accountants, has been unanimously elected auditor of the Golden Gate bridge enterprise. The project is to be financed by assessments on the thirteen counties of northern California.

Carl V. Starkloff, Baltimore, addressed the fifth district conference of the National Association of Credit Men in Lynchburg, Virginia, March 12th, on "The federal reserve system."

An article entitled "Internal audit control in a moderate sized business," by A. F. Wagner, Minneapolis, was published in the second section of the *N. A. C. A. Bulletin* of March 15th.

# Bulletin Supplement

April 15, 1929.

## To Members and Associates of the American Institute of Accountants:

The board of examiners has given consideration to applications for admission to the American Institute of Accountants. Three applicants for membership are recommended for election on the basis of oral examination. Five applicants for membership and two for associate membership have been given credit for having passed the Institute's examinations for a C. P. A. certificate. Credit for having passed other examinations acceptable to the Institute was accorded three applicants for membership and one for associate membership.

The council at its meeting on April 8, 1929, approved the recommendations of the board of examiners.

Following is a list of those recommended for election:

### *For Admission as Members:*

Frederick C. Albershardt, Indianapolis  
John Balch, Philadelphia  
Harry J. Cochran, Hammond, Indiana  
William B. Connor, Paris, Texas  
Fred L. Main, New York  
Harold J. Murphy, New York  
Frank G. Rodgers, San Antonio, Texas  
Harold B. Simpson, New York  
Ralph W. Snyder, Indianapolis  
W. C. R. Stirton, Atlanta  
Ludwig zur Nieden, Philadelphia

### *For Admission as Associates:*

William J. Brown, Atlanta  
J. B. Fenner, Indianapolis  
William M. Schantz, Bismarck, No. Dak.

These applicants do not become members (or associates) until declared elected by the president of the Institute. If protest is to be made against the election of any applicant on the list, it should reach the offices of the Institute by May 1st.

A. P. RICHARDSON, *Secretary.*

# BULLETIN

OF THE

## AMERICAN INSTITUTE OF ACCOUNTANTS

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MAY 15, 1929

SERIES B, No. 61

### Annual Meeting, American Institute of Accountants

The committee on meetings of the American Institute of Accountants reports that the Carlton hotel, Washington, D. C., at which the 1929 annual meeting is to be held, has submitted attractive rates for the members attending the meeting.

The committee has made arrangements with local companies to provide airplanes for sightseeing flights over Washington. Speed boats will be available for trips down the Potomac river.

### New England Regional Meeting

The eleventh New England regional meeting of the American Institute of Accountants was held at the Hotel Statler, Boston, May 6th. About 150 members of the Institute and other guests were present at the morning session, and about 300 at the banquet. Registration began at 9:30 a.m. and at 10 o'clock S. L. G. Sutherland, chairman of the local committee in charge of arrangements, delivered an address of welcome.

"The accountant and the banker" was the topic of an address by Serge Semenenko, assistant vice-president of the First National Bank. He told what the banks now expect from accountants and discussed key factors in credit and financing decisions. Leland Powers spoke on "The accountant and the attorney." His address dealt, among other things, with the accountant's function as an expert witness.

A buffet luncheon was served at the hotel at 12:30 p.m. and the afternoon was devoted

to golf and other outdoor sports at the Woodland golf club, Auburndale, Massachusetts. A bridge party was arranged for the ladies.

In the evening there was a dinner dance at the Hotel Statler following which Charles F. Rittenhouse, the regional chairman, who acted as toastmaster, introduced Frederick H. Hurdman, president of the American Institute of Accountants. Mr. Hurdman expressed gratification at the attendance at the meeting and praised the committee for the thoroughness with which arrangements had been made.

George O. May delivered an address on the effect on the accountant of the present trend of corporate development. He spoke of the influence on accountancy practice of industrial consolidations and mergers and indicated the problems of interstate practice which must be solved to meet the new conditions.

The next meeting of the region will be held at Providence, Rhode Island, in May, 1930.

### American Institute Examinations

Twenty-nine states and 2 territories will cooperate with the American Institute of Accountants in the conduct of examinations which will take place on May 16th and 17th. Other states which regularly cooperate are not holding examinations this spring. More than 800 candidates are expected to sit for the examinations.

Applicants for admission to the Institute will be examined on the same days in New York, Boston, Chicago, Louisville and Tulsa.



## **Election of Applicants**

In accordance with the recommendation of the board of examiners, which was approved by the council at its meeting on April 8, 1929, the president has declared elected as of May 1, 1929, the following applicants for admission to the Institute as members and associates:

### *Admitted as Members:*

Frederick C. Albershardt, Indianapolis  
John Balch, Philadelphia  
Harry J. Cochran, Hammond, Indiana  
William B. Connor, Paris, Texas  
Fred L. Main, New York  
Harold J. Murphy, New York  
Harold B. Simpson, New York  
Ralph W. Snyder, Indianapolis  
W. C. R. Stirton, Atlanta  
Ludwig zur Nieden, Philadelphia

### *Admitted as Associates:*

William J. Brown, Atlanta  
J. B. Fenner, Indianapolis  
William M. Schantz, Bismarck, No. Dak.

## **Verification of Financial Statements**

In *The Journal of Accountancy* for May, 1929, appears a document entitled "Verification of financial statements," which is a recension of the pamphlet called "Approved methods for the preparation of balance-sheet statements," published in the *Federal Reserve Bulletin* for 1917.

A special committee of the American Institute of Accountants undertook the task of bringing up to date the matter in the original pamphlet and the revised draft contains instructions for procedure which the American Institute of Accountants believes proper for the verification of financial statements. The new document is to be published in pamphlet form at a nominal price.

## **Institute Officers Visit Midwest**

During the month of April the president and the secretary of the American Institute of Accountants visited cities in the Ohio and Mississippi valleys, in each of which they attended meetings of accountants of the vicinity. Leaving New York April 9th and returning April 22nd, they stopped at Cincinnati, Louisville, Indianapolis, St. Louis, Kansas City, Omaha, Minneapolis and St. Paul. The reception at each place

was most hospitable and the attendance at the meetings was gratifying. Various matters of interest to the profession were discussed at these meetings, such as the work of the Institute's board of examiners and its committees, the question of per diem fees, the inter-state practice of accountancy and the tendency toward specialization in the profession.

## **Many College Men Available for Staff Positions**

Applications of more than 125 college seniors who will be graduated from 67 colleges in June, 1929, have already been accepted by the bureau for placements of the American Institute of Accountants and it is expected that many more qualified men will apply before the first of July. Many of the applicants have already been assigned to some of the 40 firms which have requested that applications be referred to them, and a few applicants have obtained positions.

July, September and November, 1929, are the months in which most applicants prefer to begin work. However, there are men willing to commence their duties at any time agreeable to their employers. Following are some of the cities in which applicants have requested positions: Albany, Atlanta, Baltimore, Boston, Charlotte, Chicago, Cincinnati, Cleveland, Denver, Fort Worth, Houston, Kansas City, Louisville, Minneapolis, New York, Omaha, Philadelphia, Portland (Oregon), Raleigh, Richmond, San Francisco, Seattle, Spokane and St. Louis.

Firms interested in examining applications of college graduates who wish junior staff positions are requested to advise the bureau as far as possible in advance of actual needs.

## **International Congress on Accounting**

A draft of the complete programme for the international congress on accounting to be held in New York, September 9th to 14th, has been released by the executive committee of the congress. It appears that representatives from the following countries will attend the meeting: Australia, Austria, Czechoslovakia, England, Finland, Hawaii, Holland, Ireland, Italy, Scotland, South Africa, Switzerland and several Latin-American countries.

## *Bulletin of American Institute of Accountants*

Following is a tentative list of the topics which will be discussed at the congress:

Development of professional accounting in continental Europe.  
Legislation affecting accounting in private industry for tax purposes or in mergers or cartels.  
Legislation and education for the accounting profession.  
Educational activity in accounting and statistical work.  
Theories of depreciation.  
Problems of depreciation and obsolescence.  
Principles of valuation.  
Balance-sheets.  
Consolidated accounts.  
External influences affecting accounting practices.  
The accountant's responsibility for the inventory.  
Cost accounting.  
Standard costs.  
Distribution and selling costs.  
Commercial budgetary practice.  
Commercial arbitration.  
Municipal and governmental budgets.  
The natural business year.  
The thirteen-month-year calendar reform.

Americans who will participate in the programme are as follows: Seymour L. Andrew, James F. Behan, Eric A. Camman, Charles B. Couchman, Allan B. Crunden, Irving Fisher, Walter S. Gee, Howard C. Greer, G. C. Harrison, Charles A. Heiss, David Himmelblau, F. H. Hurdman, R. B. Kester, Joseph J. Klein, John T. Madden, George O. May, Paul M. Mazur, Robert H. Montgomery, M. E. Peloubet, Paul W. Pinkerton, John F. D. Rohrbach, T. H. Sanders, Walter A. Staub, C. R. Stevenson, Frank L. Sweetser, C. O. Wellington, John R. Wildman.

In addition there will be 34 speakers from foreign countries.

### **Suggested Change in Corporation Income-tax Return**

At the suggestion of a member of the American Institute of Accountants, the committee on federal legislation transmitted to the treasury department a proposal that specific provision should be made under item 5 of schedule K of the federal corporation income-tax return, form 1120, for listing investments in stocks and bonds of corporations. While such investments can be listed in the present form under item 11 as "other assets," it seemed to the committee that in the interest of clarity it would be advantageous to have provision made for these investments under item 5, which now provides only for governmental securities

held by the taxpayer. The committee suggested that provision be made for reporting investments in stocks and bonds of corporations under the following classifications: stocks of domestic corporations; bonds of domestic corporations; stocks and bonds of foreign corporations.

A reply from an officer of the treasury department indicates that the suggestion is regarded with favor and will be adopted if nothing occurs to prevent it.

### **Commissioner Limits Responses to Inquiries on Tax Liability**

The commissioner of internal revenue, in an effort to reduce the number of inquiries on questions of tax liability received by the bureau, has announced that rulings will not be made on such questions except under the following conditions:

(a) The transaction must be completed and not merely proposed or planned.

(b) The complete facts relative to the transaction, together with abstracts from contracts or other documents necessary to present the complete facts, must be given.

(c) The names of all the real parties interested (not "dummies" used in the transaction) must be stated regardless of who presents the question, whether attorney, accountant, tax service or other representative.

(d) A request for a ruling must be signed by the taxpayer, or in case he is represented by an attorney or agent the request must be accompanied by properly executed power of attorney. Banks, however, will not be required to furnish powers of attorney with respect to inquiries affecting their depositors.

(e) A copy of a ruling addressed to a taxpayer will not be furnished to his attorney or agent unless the bureau is specifically authorized to do so by the taxpayer.

### **Depreciation Rates for Construction Equipment**

A report of a special committee of the Associated General Contractors of America, published in *Engineering and Contracting* for April, 1929, contains recommendations for methods of accounting and depreciation rates for construction equipment. The committee's study of the question was prompted by a request of the bureau of internal revenue in 1927 for suggestions of suitable rates for depreciating physical assets in the contracting industry, for income-tax purposes.

The committee's general conclusion, derived from consideration of data gathered in all parts of the country, is to the effect that lives of identical pieces of equipment may vary over a wide range in different classes of work and under different operating conditions, and that no single method of handling depreciation is suitable to the accounting needs of all companies. It is believed improper to fix standard rates of depreciation for income-tax returns without adequate provision for variations. With this in mind the committee submits a series of recommendations and a table of reasonable average rates for depreciation on various items of construction equipment. The recommendations include five alternative methods of accounting for depreciation, with the understanding that the most suitable method may be selected by individual concerns for each item of equipment, but that after a method has been selected it should be followed consistently as far as that item is concerned. The straight-line method, the unit-of-work method, the charge-off method, the composite-rate method and the appraisal-of-useful-life method are all included. The committee also suggests definitions of obsolescence, depreciation, kinds of rates, salvage and profit or loss, as these terms are used in the preparation and audit of tax returns of the contracting industry. The fourth and last recommendation is an outline of accounting procedure which it is hoped will be followed for the preparation of tax returns.

### **Uniform Accounts for Limited-Dividend Housing Companies**

The board of housing, division of architecture, department of public works, of the state of New York, after having given consideration to the matter of establishing uniform methods and forms for keeping accounts of limited-dividend housing corporations operating under the state housing law, has approved a uniform system of accounts and has directed that all such corporations keep their records in accordance therewith.

The accounting system has been published in pamphlet form and contains a standard form of balance-sheet, instructions concerning the balance-sheet accounts and a stand-

ard form of profit-and-loss account with related instructions.

### **Harvard Offers Accounting Course for Business Executives**

A course in the interpretation of financial statements will be included in the second special session for business executives to be held at Harvard University during the coming summer. The first special session held in the summer of 1928 was so successful that a continuation of the experiment seemed justified. The session will last six weeks and admission is limited to executives holding responsible positions in business and persons engaged in teaching related subjects. The subjects of courses offered are: interpretation of financial statements, public-utility management and economics, railway transportation, bank management, sales management, retail distribution and trust management. Living accommodations at the school of business administration and the facilities of the Harvard business library will be available to men attending the session.

The course in interpretation of financial statements will be given by William Morse Cole, T. H. Sanders, R. J. Walker, A. W. Hanson and Homer N. Sweet. The material of the course will consist of actual cases from confidential files and from published reports of business enterprises in various kinds of business. Attention will be given to interpretation of balance-sheets, of operating statements and of changes in surplus; the adequacy or inadequacy of the accounting methods which have provided the available information, such as budgetary control and cost-accounting systems; and the character of information required for proper judgment of the enterprise in addition to that in the first instance available.

### **Practice Part of University Accounting Course**

Students of accounting at the school of business administration of the University of Arkansas are allowed one month during their course to acquire accounting experience with public accounting firms in the state. The arrangement first took effect during the month of February, 1929, and several

students obtained temporary positions as junior staff accountants. Officers of the school of business administration have expressed gratification at the result of the experiment and indicate that it will be continued.

Similar arrangements have been made at other universities during the past few years.

### **Women May Not Be Chartered Accountants in Quebec**

A bill to amend the charter of the Society of Chartered Accountants of the Province of Quebec in order to permit women to become members was killed in the legislature on March 22nd.

The existing charter does not specifically forbid the admission of women. Its provisions are applicable to all persons, but a recent court decision of the province, ruling that women were not "persons" in the spirit of the law, created a precedent which prevented the Society of Chartered Accountants from admitting women without specific changes in its charter. None of the members of the society offered any objection to the proposed change but since the bill failed in the legislature there is no legal authority whereby women may be admitted.

There is no restriction in Quebec on the practice of public accounting, in which persons of either sex are at liberty to engage.

## **STATE LEGISLATION**

Since publication of the April *Bulletin* the accountancy bill proposed in Iowa has become law. It is reprinted elsewhere in this magazine.

Bills for the repeal of existing accountancy laws have been introduced in Florida and Illinois but neither is believed to have much chance of passage.

The only states whose legislatures are still reported in session when this *Bulletin* goes to press are California, Connecticut, Florida, Illinois, Massachusetts, Michigan, Missouri, New Jersey, Texas and Wisconsin. The legislature of Georgia is to convene June 26th.

Bills whose passage has not been reported, in states where legislatures have adjourned, are presumably dead.

Only significant action on bills of interest to accountants taken since publication of the April *Bulletin* is reported in this issue.

### **California**

In California a bill providing for uniform cost accounting in junior colleges, senate bill No. 488, was passed by both houses and approved by the governor April 23rd.

### **Connecticut**

Connecticut house bill No. 106, whose introduction was reported in the March *Bulletin*, has passed both houses of the legislature. The bill reads as follows:

#### **AN ACT CONCERNING TOWN AUDITORS.**

BE IT enacted by the senate and house of representatives in general assembly convened:

Section 1. Any town, at a town meeting duly warned and held for the purpose, may provide for the replacement of its town auditors by a public accountant or a firm of public accountants. The board of finance of such town or its board of selectmen in case it shall have no board of finance shall annually appoint said public accountant or firm of public accountants and fix the compensation therefor. Such public accountant or firm of public accountants shall at least once annually examine, verify, prepare for publication and make a sworn report of the accounts of all officers, boards, commissions and departments of said town.

Sec. 2. Any public accountant appointed and acting under the provisions of this act, who shall so verify any return or report, known to him to be false in fact, or which in any material respect intentionally suppresses or conceals the truth, shall be imprisoned not more than six months or fined not more than two hundred dollars or both.

Sec. 3. Any town voting to appoint a public accountant as town auditor shall not repeal said vote until the expiration of two years from the date of such vote.

### **Florida**

The legislature of Florida convened April 2nd. On April 15th a bill was introduced to repeal the existing accountancy law, passed in 1927, without a substitute. It is said that state economy prompted the bill, which is numbered senate 135. Its sponsors, after assurance that the state board of accountancy does not call upon the state for funds, are not expected to press the bill.

House bill No. 413 would authorize semi-annual audits of all state, county and municipal offices and state agencies and subdivisions, by a state auditor, an assistant and not more than six deputies.

A system of budgeting, accounting and auditing in offices of county school boards would be provided by house bill No. 169, introduced April 12th.

### **Illinois**

The public accountant law of Illinois would be repealed, without substitute, by house bill No. 697, introduced April 23rd. Passage of this bill would apparently leave in effect only the C. P. A. law of 1903.

The bill to admit as public accountants, without examination, certain privately employed accountants, mentioned in the April *Bulletin* as house bill No. 454, was killed in the house April 25th.

House bill No. 686, introduced April 18th, would grant without examination certificates of registration as public accountants to accountants employed by the state or certifying to financial statements of any business over which the state has regulatory authority. The bill is opposed by certified public accountants of Illinois. It is also under consideration as senate bill No. 461.

House bill No. 263, mentioned in the April *Bulletin*, which relates to local financial accounts, audits and reports, passed the senate April 24th.

### **Iowa**

After much discussion, amendment and recommitment, the accountancy bill introduced in the Iowa legislature finally passed both houses and was signed by the governor on April 12th. The draft finally approved was the amended form of house bill No. 207.

The new law represents a series of compromises between the certified public accountants and public accountants of the state, and is of the two-class type of legislation. It provides that practitioners of public accounting must be registered, either as certified public accountants or public accountants.

Section 11 provides that in certain circumstances C. P. A. certificates may be obtained by oral examination, and that accountants in continuous practice in Iowa

since passage of the prior accountancy act may obtain certificates by waiver.

Certified public accountants of other states wishing to practise temporarily in Iowa must appoint a registered practitioner in the state to act as agent liable to legal service. The agent must be appointed five days before commencement of a temporary engagement. It has been explained by Iowa accountants that appointment of a permanent agent in the state would probably obviate the necessity of sending formal notification to state authorities on each separate occasion.

Official copies of the law have not been published since its approval, but the original bill, with amendments interpolated, is here reprinted. The following text is believed to be accurate:

AN ACT TO REPEAL THE LAW AS IT APPEARS IN CHAPTER NINETY-ONE (91) TITLE V OF THE CODE, 1927, AND TO ENACT A SUBSTITUTE THEREFOR RELATING TO THE PRACTICE OF ACCOUNTANCY; TO ESTABLISH A BOARD OF ACCOUNTANCY AND TO PROVIDE FOR THE EXAMINATION, REGISTRATION AND LICENSING OF PRACTITIONERS OF ACCOUNTANCY; TO PROVIDE RULES AND REGULATIONS CONCERNING THE PRACTICE THEREOF AND TO PROVIDE PENALTIES FOR VIOLATION THEREOF.

BE IT enacted by the general assembly of the state of Iowa:

Section 1. Repeal. Chapter ninety-one (91), title V of the Code, 1927, is repealed and the following is enacted in lieu thereof:

Sec. 2. Board of accountancy—appointment—tenure. The board of accountancy shall consist of three (3) members, all of whom shall be practising certified public accountants, having practised accountancy in this state for at least five (5) years. Within sixty (60) days after this act takes effect, the governor shall appoint the members of said board for terms as follows: one (1) for a term ending June 30, 1930; one (1) for a term ending June 30, 1931; and one (1) for a term ending June 30, 1932, and upon the expiration of each of said terms and of each succeeding term, a member shall be appointed for a term of three (3) years but no person shall be eligible for more than two (2) consecutive terms of office. Vacancies occurring in the membership of the board for any cause shall be filled by the governor for the unexpired term.

Sec. 3. Powers and duties. The board shall have power and it shall be its duty to: (1) Adopt, print, publish and distribute reasonable rules not inconsistent with the provisions of this act for the guidance of the public, registered practitioners, and applicants for examinations; (2) compel the attendance of witnesses; (3) administer oaths; (4) take testimony; (5) require proof in all matters pertaining to the administration of this act; (6) keep a record of all their proceedings including applications for examinations, registration, and

## *Bulletin of American Institute of Accountants*

certificates to practise, showing the reasons for the refusal of any such application or for the revocation or suspension of any registration or certificate to practise; (7) preserve testimony taken in all hearings provided for in this act. Testimony may be oral or by deposition; and when oral the questions and answers shall be taken down by a certified shorthand reporter and full transcripts thereof made for the use of the parties interested; (8) the treasurer elected shall upon assuming office file with the auditor of state a good and sufficient bond in a company authorized to do business in this state in the penal sum of \$5,000.00 and shall on or before June 30th in each year, pay all sums remaining after the payment of the expenses authorized by this act into the state treasury to be there carried to the credit of and subject to withdrawal by the board of accountancy; (9) the board shall make a biennial report to the governor of its proceedings, with an account of all moneys received and disbursed, a list of the names of all practitioners whose certificates to practise have been revoked or suspended, and such other information as it may deem proper or the governor request, and do all other things required by this act to be done by said board.

Sec. 4. Annual register. The board of accountancy shall have printed and published for public distribution, in January of each year, an annual register which shall contain the names, arranged alphabetically by classifications, of all practitioners registered under this act; the names, of the board of accountancy, and such other matters as may be deemed proper by the board of accountancy. Copies of said reports shall be mailed to each registered practitioner.

Sec. 5. No compensation—expenses. No compensation shall be paid to any member of the board for services as such, but the members thereof shall be allowed the necessary traveling, printing and other expense incident to the discharge of their duties. Bills for the expense of the board or its members shall be audited and allowed by the state board of audit and shall be paid from the fees received under the provisions of this act.

Sec. 6. Annual meetings—election. The board shall hold an annual meeting during the first week in July of each year, and a special meeting within sixty days after this act takes effect, for the purpose of electing from its accountant members, a chairman, a secretary and a treasurer; and it shall meet not less than four times each year, at least two of which meetings shall be held at the state house. Two members shall constitute a quorum except as otherwise provided.

Sec. 7. Definitions. Practice of accountancy. All persons engaged in the practice of accountancy, within the meaning and intent of this act, who, holding themselves out to the public as qualified practitioners and maintaining an office for this purpose, either in their own names, or as office managers and/or as managing officers of assumed name, association or corporate organization, perform for compensation, on behalf of more than one client, a service which requires the audit or verification of financial transactions and accounting records; the preparation, verification and certification of financial, accounting, and related statements for publication or for credit purposes; and/or

who in general and incidental to such work, render professional assistance in any and all matters of principal and detail concerning accounting procedure and the recording, presentation and certification of financial facts.

Sec. 8. Other terms defined.

(a) A certified public accountant is a person who receives from the board of accountancy of the state, a certificate under any law of the state relating to certified public accountants and which certificate has not been revoked under due process of law; and is entitled to use the abbreviation C. P. A. in connection with his name. All other practitioners may use their title in full as stated herein and no other.

(b) A public accountant is a person who is engaged in the practice of accountancy at the time of enactment of this act and who is not a certified public accountant, but who can qualify as a practitioner under the provisions of section 7 of this act.

(c) A senior accountant or senior staff accountant means a person employed by a practitioner entitled to registration under this act, and who, through the experience deemed necessary by his employer, has qualified and has been placed in charge of public accounting assignments.

(d) A junior accountant is a person who, through lack of experience, is required to work under the supervision of a senior accountant or a practitioner as herein defined.

(e) "Office," as used in section 7, means one or more office rooms through which public accounting work is handled.

(f) "Office managers and/or managing officers" as used in section 7, means persons having charge of public accountancy work handled through an office as defined in paragraph (e) of this section.

Sec. 9. Examination. All applicants for registration and certificates to practise accountancy, except persons actually engaged in such practice at the date of the passage of this act, and except as provided in sections 11, 12 and 13, and all persons who desire to become certified public accountants shall be required to take a written examination to be conducted by the board of accountancy, and upon satisfactorily passing the same shall receive certificates as certified public accountants and shall be entitled to practise as such upon the payment of annual fees as in this act provided.

Such examination shall be upon the following subjects: Theory of accounts, practical accounting, auditing, taxation, general commercial knowledge, and commercial law.

Examinations as above provided shall be conducted by the board of accountancy at least once each year in May or November, or both, as the board may deem expedient.

The board shall at its meetings establish the time and place of holding such examinations, and shall cause to be published a notice thereof for not less than three consecutive days in each of three daily newspapers published in this state, the last publication to be not less than sixty days prior to such examination, and shall notify all candidates of their success or failure within a reasonable time, stating the grade received on each paper or subject.

Sec. 10. Qualifications for examination. Every applicant for the examination provided for in the

preceding section must be over twenty-one years of age, a resident of this state, a citizen of the United States or have declared his or her intention to become such, of good moral character, a graduate of a high school having at least a four-year course of study or its equivalent as determined by the board of accountancy, or shall pass a preliminary examination to be given by the board at least thirty days before the regular examination; and a graduate of a college or university commerce course of at least three years, majoring in accounting, and in addition shall have had at least one year's service as a staff accountant in the employ of a practitioner entitled to register under this act.

The following shall, however, be accepted in lieu of the college or university commerce course and the one year of service:

(a) Three years' continuous practical accounting experience as a public accountant or as a staff accountant.

(b) Three years' continuous employment as a field examiner under a revenue agent-in-charge of the income-tax bureau of the treasury department of the United States, or as a field examiner in the auditor's, budget director's, banking or insurance departments of this state.

Sec. 11. Oral or written examination. All practitioners as described in section seven (7), who on June 30, 1929, shall have been engaged in such practice for seven years or more, the last five years of which shall have been in this state, shall upon satisfactorily passing an examination upon the practical principles and practice of accountancy, be issued certificates to practise as certified public accountants provided request for such examination is made in the original application for registration on or before September 30, 1929. The examinations as provided in this section shall be either written or oral at the option of the applicant, and shall be held as soon as possible after the application has been received by the state board of accountancy or the board of accountancy as created by this act and certificates shall be issued within twenty (20) days after the date of such examination to all who successfully pass the same. When an oral examination is taken by an applicant, the questions and answers shall be fully taken down by a certified shorthand reporter.

All practitioners as defined by section seven (7) who were engaged in such practice in the state of Iowa at the date of the taking effect of chapter one hundred thirty-four (134) of the acts of the thirty-sixth general assembly and who shall have been continuously engaged in such practice in this state since the passage of said act shall upon application to the board of accountancy be issued certificates as certified public accountants as of date September 30, 1929, without examination.

Sec. 12. Registration of practitioners. All practitioners engaged in the practice of accountancy in this state at the time of the passage of this act who desire to continue in such practice, shall upon application to the board of accountancy on or before September 30, 1929, be registered as follows:

(a) All persons entitled to certificates under this act prior to September 30, 1929, as certified public accountants, shall be registered as certified

public accountants and be issued certificates before December 31, 1929, to practise as such for the ensuing year.

(b) All other practitioners shall be registered as public accountants and shall be issued certificates before December 31, 1929, to practise as such for the ensuing year.

(c) All practitioners who, in connection with the practice of accountancy, make use of a firm, association, assumed or corporate name, shall register the same at the time of making application for registration as herein provided, and certificates to practise shall be issued only in the names of individuals; and only firms whose members are all certified public accountants shall use such designation in connection with the use of such firm names.

Sec. 13. Registration of applicants to practise. All applicants for registration and certificates to practise accountancy for whom no provision is made in the preceding sections, shall be required to take and pass the examination provided for in section 9, except as follows:

(a) The holders of unrevoked certified public accountant certificates granted in this state prior to September 30, 1929, and who are not engaged in practice at that time may register their certificates in December, 1929.

(b) The holders of unrevoked certified public accountant certificates granted by other states or of equivalent certificates granted by the recognized authority of foreign countries may register their certificates, provided such certificates were issued as the result of an examination which, in the judgment of the board of accountancy, was equivalent to the standard set by it, or the holders thereof shall have been in continuous practice thereunder for at least seven (7) years.

(c) All senior accountants who have been continuously employed as such for at least three years prior to June 30, 1929, by practitioners entitled to registration under this act or as senior accountants in the employ of public accountants of recognized standing in other states shall be registered as public accountants, provided the last year of such employment shall have been in this state.

(d) Certificates to practise either as certified public accountants or public accountants shall not be issued to any person referred to herein until such person shall have filed with the board of accountancy a written declaration of intention to practise as defined by this act.

Sec. 14. Oath. Every applicant for certificate to practise accountancy shall be required, prior to the issuance thereof, to subscribe and file with the board the following oath: I do solemnly swear (or affirm) that I will support the constitution of the United States and the constitution of the state of Iowa and that I will faithfully and conscientiously perform the duties of a practitioner of accountancy to the best of my ability and in accordance with the law.

(a) Every person having been granted a certificate to practise accountancy under the provisions of this act, or any renewal thereof, shall give a bond in the sum of five thousand dollars (\$5,000.00) to the auditor of state before entering upon the discharge of his duties for the faithful performance of the same.

## *Bulletin of American Institute of Accountants*

Sec. 15. Fees. The board of accountancy shall collect the following fees:

(a) For examination of applicants, the sum of \$25.00.

(b) For registration of certified public accountant certificates granted by other states and foreign countries, the sum of \$25.00.

(c) For issuance of certificates to practise, the sum of \$10.00 in December, 1929, and annually thereafter; for periods of less than six months, \$5.00.

(d) For the registration of firm, assumed, association or corporate names; of certified public accountants not in practice; and of senior accountants entitled thereto, the sum of \$5.00 payable in December, 1929, and annually thereafter.

On the failure of payment of any of the annual fees above provided, the registration shall be automatically canceled and any registrant so defaulting shall not be entitled to receive a certificate to practise until he or she shall have paid the registration fee as provided herein, together with the amount of such default or arrears.

Sec. 16. Renewal of certificates. Registrations and certificate to practise shall be subject to renewal in December of each year upon payment of the fees provided by this act.

Sec. 17. Revocation of registration and certificates to practise. The board of accountancy shall revoke and cancel the registration or certificate to practise of any person upon proof that the holder thereof has been convicted of a felony or any lesser offense involving dishonesty or fraud; or has been principal or accessory to the issuance or certification of false or fraudulent financial or related statements; or has obtained registration and certificate to practise or either by means of false statements or representations; or may suspend such registration and certificates or either upon proof that the holder thereof has been guilty of unprofessional or unethical conduct in connection with the practice of accountancy. Such suspension shall be for such period of time, not exceeding one year, as in the discretion of the board shall be deemed appropriate.

Neither revocation nor suspension as herein provided shall be ordered by the board until a written notice stating the name of the person or persons who filed the charges, or that the board initiated the charges; a full and complete copy of the charges which have been preferred; and fixing the time and place where the hearing shall be had; shall have been served upon the person against whom such charges are filed in the manner of serving original notices in the district court of Iowa, at least twenty (20) days before the date fixed for hearing.

The board may adjourn such hearing from time to time upon request of the party charged, for the purpose of a fair hearing, and the certificate holder shall have the right to be represented by counsel.

All hearings as herein provided shall be before the full board, and a two-thirds vote of the members thereof shall be required before any cancellation, revocation or suspension shall be ordered.

The district court is empowered to enforce by proper proceedings the provisions of this chapter relating to the attendance and testimony of witnesses and the examination of books and records.

Sec. 18. Confidential information—privilege.

The information acquired by registered practitioners or their employees, agents, or servants in the course of professional engagements shall be deemed confidential and privileged, and except by written permission of the clients involved, or of their heirs or personal representatives, shall not be disclosed to any person; provided, however, that nothing contained in this section shall be construed to modify, change, or otherwise affect the criminal or bankruptcy laws of this state or of the United States.

Sec. 19. Corporations not to practise. Articles of incorporation shall not, after the passage of this act, be granted which include among their objects, the practice of accountancy, but nothing contained in this act shall be construed to alter, abridge, revoke or in any manner affect the rights and powers of existing corporations.

Sec. 20. Unlawful practice. It shall be unlawful after September 30, 1929, for any person to practise accountancy in this state as defined in this act either as an individual or as a member of any firm or association or under a firm, assumed or corporate name, whether maintaining an office for such practice or not, unless such person is the holder of a certificate to practise for the current year or is entitled to registration as in this act provided and has made application therefor.

Sec. 21. Penalties. (a) Any person, firm, or corporation who shall practise accountancy in this state in violation of the provisions of this act, or who shall in any manner hold themselves out to the public as practitioners of accountancy without having complied with all of the provisions of this act, shall for each such offense be guilty of a misdemeanor, and upon conviction thereof shall be punished by imprisonment in the county jail not exceeding thirty days, or by a fine not exceeding \$100.00, or by both such fine and imprisonment.

(b) Any person, firm or corporation who shall sign, execute, or publish any report, financial, accounting, or related statement, designating himself or themselves as registered or certified practitioners or knowingly permit the printing and publication of any announcement in writing to the effect that such report or statement has been prepared by a registered or certified practitioner when in fact the person, firm, or corporation preparing the same was not registered or certified as in this act provided, shall be guilty of a misdemeanor, and upon conviction thereof, shall be punished by a fine not to exceed \$500.00 or by imprisonment in the county jail for a term not exceeding one year.

(c) Any practitioner of accountancy who shall wilfully or knowingly utter or certify to the correctness of any report, financial, accounting, or related statement, which is known to such practitioner to be false, misleading to the public, or designed to mislead any person, shall be deemed guilty of a felony, and upon conviction thereof shall be punished by a fine of not to exceed \$5,000.00, or by imprisonment in the state prison for a term not exceeding two years, or by both such fine and imprisonment in the discretion of the court.

Sec. 22. Exceptions. Nothing contained in this act shall be construed to prevent:

(a) The holders of certified public accountant certificates granted by other states from practising in this state in connection with temporary engagements incident to their professional practice in



the states of their domicile but, who have neither office nor legal address in this state; provided they file with the board of accountancy, and with the auditor of state, at least five days before commencing work for a client, the written appointment of a registered practitioner in this state to act as agent upon whom legal service may be had in all matters which may arise from such temporary professional engagements.

(b) The employment by registered practitioners of non-registered persons to serve as staff accountants provided the latter do not issue reports or accounting statements in their own names except such office records as may be customary.

(c) Attorneys-at-law duly admitted to practise in this state from doing anything usual and proper in connection with their duties as such attorneys.

(d) The employment of persons by more than one individual firm or corporation for the purpose of keeping books, making trial balances, or performing general commercial bookkeeping.

Sec. 23. Existing board dissolved. The state board of accountancy in existence at the passage of this act by virtue of chapter 91 of Code of 1927, repealed herein, shall continue in existence until August 4, 1929, and until the board provided for in this act shall have been appointed and qualified, for the purpose of issuing certified public accountant certificates to persons who have become entitled thereto, prior to August 4, 1929, and for the purpose of winding up the affairs of said board.

Sec. 24. Constitutionality. Should the courts of this state or of the United States declare any of the provisions of this act unconstitutional, illegal, or void, such decision shall not invalidate any other provisions herein contained.

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Iowa senate bill No. 477, mentioned in the April *Bulletin*, which would provide for collaboration of a certified public accountant with state officers in auditing accounts of the highway commission, passed the senate April 1st.

### **Maryland**

Senate bill No. 291, which would have extended the time limit in which certain Maryland accountants could register as public accountants, passed both houses of the state legislature, but was vetoed by the governor on April 11th.

House bill No. 584, mentioned in the April *Bulletin*, which would also have amended the accountancy law, failed to pass before adjournment of the legislature.

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William E. Hill has been elected to the executive committee of the Chicago association of commerce.

### **Ohio**

The Ohio legislature adjourned April 16th, without passing the two-class accountancy bill introduced at the instance of the Ohio State Society of Certified Public Accountants.

### **Texas**

Following is the text of Texas house bill No. 664, which was approved April 2nd. It authorizes appointment of county auditors under certain conditions.

AN ACT PROVIDING THAT IN COUNTIES OF NOT LESS THAN THIRTY-FOUR THOUSAND SEVEN HUNDRED AND NOT MORE THAN THIRTY-FIVE THOUSAND INHABITANTS, ACCORDING TO THE 1920 FEDERAL CENSUS, AND HAVING A TAX VALUATION OF NOT LESS THAN \$8,800,000.00 AND NOT MORE THAN \$8,900,000.00, ACCORDING TO THE APPROVED TAX ROLLS OF 1928, THE COMMISSIONERS' COURT MAY APPOINT A COUNTY AUDITOR, AND PROVIDING THAT SAID COMMISSIONERS' COURT SHALL HAVE THE POWER OF REMOVING SAID AUDITOR SO APPOINTED; AND DECLARING AN EMERGENCY.

BE IT enacted by the legislature of the state of Texas:

Section 1. In any county having a population of not less than thirty-four thousand seven hundred and not more than thirty-five thousand inhabitants, according to the 1920 federal census, and having a tax valuation of not less than eight million eight hundred thousand dollars and not more than eight million nine hundred thousand dollars, according to the approved tax rolls of 1928, if the commissioners' court thereof shall determine that an auditor is a public necessity in the dispatch of the county's business, said commissioners' court shall enter an order fully setting out the reasons and necessity of an auditor, and shall appoint a county auditor, who shall qualify and perform all the duties required of county auditors of this state; provided said commissioners' court shall have the power to discontinue the office of such county auditor at any time when it is clearly shown that said auditor is not a public necessity and his services are not commensurate with his salary received.

Sec. 2. The public importance of the purposes herein contemplated, creates an emergency and an imperative public necessity exists demanding that the constitutional rule requiring bills to be read on three several days in each house be suspended, and said rule is hereby suspended, and this act shall take effect and be in force from and after its passage, and it is so enacted.

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William Lawther Vernon, Cairo, Illinois, has been elected president of the Kiwanis club of Cairo for the current year.

## NEWS OF LOCAL SOCIETIES

### **California State Society of Certified Public Accountants**

#### **SAN FRANCISCO CHAPTER**

A regular monthly meeting of the San Francisco chapter of the California State Society of Certified Public Accountants is to be held at the Engineers' club, San Francisco, May 17th. George R. Keast, a member of the state board of accountancy, will present a paper on the responsibility of certified public accountants in the verification of inventories. A committee of the state bankers' association, appointed to cooperate with the accountants' society, will be guests at the meeting.

### **Illinois Society of Certified Public Accountants**

At a meeting of the Illinois Society of Certified Public Accountants held at the Palmer House, Chicago, April 26th, Silas H. Strawn spoke on "Plans and policies of the Chicago board of trade as it relates to the listing of securities." An address was also delivered by David H. Jackson, chairman of the Illinois securities commission, on the plans and policies of the commission.

### **Missouri Society of Certified Public Accountants**

The annual meeting of the Missouri Society of Certified Public Accountants will be held at Kansas City, Missouri, on Friday, June 14th.

### **Society of Certified Public Accountants of the State of New Jersey**

The thirty-first annual meeting of the Society of Certified Public Accountants of the State of New Jersey was held in Newark, May 14th. The principal speakers were the Hon. William Clark, judge of the United States district court of New Jersey, and the Hon. Guy G. Gabrielson, speaker of the house of assembly of the legislature of the state of New Jersey, who spoke on state financing, organization and accounting.

### **New York State Society of Certified Public Accountants**

A regular monthly meeting of the New York State Society of Certified Public Accountants was held at the Roosevelt hotel, New York, April 15th.

Two amendments to the by-laws of the society which had been proposed to the membership were adopted. The intent of the amendments is to permit the omission of the February meeting of the society if the board of directors considers it advisable and to permit the organization of chapters of the society in any section of the state.

The secretary read a letter from the president of the American Arbitration Association accepting with thanks the offer of affiliation with the association made by the New York State Society of Certified Public Accountants.

P. W. R. Glover, president of the society, announced that the board of directors had offered the cooperation of the New York State Society of Certified Public Accountants to the regents of the state of New York and the department of education in any unusual labors which may be necessitated by the new accountancy law. Mr. Glover also gave a brief summary of the important provisions of the law and offered his opinion of their probable effect.

"Contractors' accounts" was the title of an address delivered at the meeting by W. M. Affelder, comptroller of the Thompson-Starrett Company, Inc. Mr. Affelder gave special attention to the calculation of contractors' profits, with reference to profits subject to income tax when the end of a fiscal year occurs before completion of the contract concerned. The formula which the speaker offered to obtain the desired figures is: "cost to date, divided by ultimate cost as estimated, multiplied by ultimate profit, equals profit to date." Following the address the meeting was thrown open to general discussion and many questions were asked of the speaker.

The meeting adjourned promptly at 9:55 p.m. and a group of the members present attended a reception to which they had been invited by the Accountants' club, in its new quarters at the Hotel Montclair.

The annual meeting of the New York State Society was held May 13th at the Builders' club, New York. Following dinner a business meeting was held at which annual reports were submitted and officers were elected.

The principal speaker was Eric A. Camman, whose subject was "Inter-departmental profits."

This was the last meeting of the society for the season. Under the by-laws no meetings are to be held between the time of the annual meeting and the following October.

### **Pennsylvania Institute of Certified Public Accountants**

The annual meeting of the Pennsylvania Institute of Certified Public Accountants will be held at Galen Hall hotel, Wernersville, Pennsylvania, June 10th, 11th and 12th.

#### **PHILADELPHIA CHAPTER**

At a meeting of the Philadelphia chapter of the Pennsylvania Institute of Certified Public Accountants on April 17, 1929, the

following officers were elected: Edward P. Moxey, chairman; John C. Parry, jr., secretary, and Robert N. Rissinger, treasurer. The following, in addition to the officers, are members of the new executive committee: W. C. Butscher, Horace P. Griffith, John Hood, jr., D. Vincent Johnston, William R. Main, J. K. Mathieson and Clarence L. Turner.

The meeting was held at the Art club in Philadelphia. John J. Sullivan, professor of business law at the University of Pennsylvania, spoke on accounting for estates of decedents.

#### **PITTSBURGH CHAPTER**

Officers of the Pittsburgh chapter of the Pennsylvania Institute of Certified Public Accountants elected at the annual meeting of the chapter on April 18th are as follows: J. M. Cumming, chairman; M. D. Bachrach, vice-chairman; Adrian F. Sanderbeck, secretary, and W. W. Colledge, treasurer. The following were elected members of the executive committee: David A. Allen, Ernest Crowther, Richard H. Mohler, Irwin C. Snyder and Frank A. Willison.

## **COURT DECISION**

### **Court Holds Employment of County Auditor Exempt from Requirement for Bids**

A statute requiring certain county contracts to be made on a basis of competitive bids was held not to control engagement of an auditor, according to a part of the decision of the Texas court of civil appeals in the case of *Cochran County v. West Audit Co.* The engagement of an auditor is an attempt to obtain services requiring special skill and technical knowledge, according to the court, and is not required to be let on competitive bids. The complete text of the decision is as follows:

*Cochran County v. West Audit Co. et al.*

Court of Civil Appeals of Texas. Amarillo.  
Feb. 29, 1928.

Rehearing denied March 21, 1928.

Appeal from district court, Lubbock county; Clark M. Mullican, judge.

Action for mandamus by the West Audit Company against the First National Bank of Lubbock,

Tex., in which defendant impleaded Cochran county and another as defendants. From the judgment, defendant county appeals. Reformed and affirmed.

Bean & Klett, of Lubbock, for appellant.

Lockhart & Garrard, F. D. Brown, Wilson & Randal, and J. I. Kilpatrick, all of Lubbock, for appellees.

JACKSON, J. This suit was instituted in the district court of Lubbock county, Tex., by the plaintiff, West Audit Company, a corporation, against the First National Bank of Lubbock, Tex., defendant.

Plaintiff alleges that the defendant is a banking corporation and is the depository of and has in its possession funds and money belonging to Cochran county, and as such depository is bound and obligated to pay out of such funds the cheques and vouchers drawn thereon by the county treasurer of said county; that about November 19, 1926, Cochran county issued five warrants or vouchers of said county, against the general fund thereof, payable to plaintiff, each in the sum of \$1,000; that after said warrants were issued and delivered, they were surrendered to the county treasurer, who canceled them and issued to plaintiff, in lieu thereof, five cheques dated November 19, 1926, drawn on the defendant bank, and payable out of the general funds of the county; that on the date

of the issuance and delivery of said cheques, the defendant did not have sufficient funds of the county to pay said cheques, and plaintiff held them until there were funds in said depository sufficient to pay the cheques or a part thereof; that on February 24, 1927, the defendant had on hand to the credit of the general fund of the county a sufficient sum to pay \$2,000, and on said date the plaintiff presented cheques Nos. 776 and 777 for payment, which were refused; that said bank, as depository, has on hand a sufficient sum to the credit of the county to pay all of said cheques, and its refusal to pay the cheques presented was without authority, and plaintiff is entitled and sues for a writ of mandamus compelling said defendant to pay all of said cheques, or so many thereof as the fund it holds, as depository, will satisfy and discharge.

The defendant bank answered, admitting that it was and is the depository of Cochran county, but says that on or about November 26, 1926, the county treasurer of Cochran county instructed it not to pay said cheques; that at the time of their presentation for payment, it had, as depository of Cochran county, the sum of \$1,421.51, which was insufficient to pay the cheques presented; that at the time of answering, it had on hand as depository of said county the sum of \$1,442.26; that it has no interest in this suit, holds the money as depository or stakeholder, and tenders into court the money it has, less reasonable attorney's fees claimed for answering in this suit, which it alleges to be \$500. The bank alleges that both plaintiff and Cochran county, acting through its treasurer, Mrs. Addie Spickard, are claiming the funds held by it as depository of Cochran county, and it impleads both Cochran county and its treasurer, and asks for its attorney's fees.

Cochran county answered:

That it was the owner of the money held by the bank, as its depository, and that said sum is a part of its general fund and neither the bank nor the plaintiff have any right thereto, or any part thereof. That the five cheques sued on by plaintiff, each in the sum of \$1,000 issued by the treasurer of the county, were, at the date of the issuance thereof, and still are, void and unenforceable. That on October 11, 1926, the commissioners' court of Cochran county, without complying with articles 1641 and 2368 of R. C. S. 1925, entered on its minutes an order reading:

"Motion by Commissioner Shipman and seconded by Commissioner Bennett that we get West and West to audit the county books. Motion carried."

The county then sets out an order of November 19th, allowing appellee's account for \$10,000, and an order of November 22nd, rescinding the allowance of said account. That on November 23, 1926, the commissioners' court passed and entered upon its minutes an order which reads:

"Be it ordered by said court that the contract of West Auditing Company be hereby entered into the minutes of said court and be as follows: 'The state of Texas, county of Cochran:

'Whereas, the county of Cochran, state of Texas, acting by and through its duly elected, qualified and sworn commissioners' court, de-

sires a general audit of all of the financial business affairs of said county and of the various offices therein during the period covered by this contract; and

"Whereas, West Audit Company, a corporation, of Abilene, Texas, has made a proposition to said county to conduct said audit from time to time during the term of this contract as hereinafter set out:

"Now, Therefore, said county of Cochran, state of Texas, acting through said commissioners' court, first party, and said West Audit Company, second party, have this day entered into the following contract:

"Said first party does hereby employ said second party to make said audits annually during the period of this contract and said second party does hereby agree to make said audits in a careful pains-taking manner, furnishing to first party a complete and detailed statement of the result of such audits, said auditing to be begun on or about the first day of November.

"The term of this contract shall include the years 1924, 1925, 1926, 1927, and 1928, and the first part of same shall be begun on or about November 1, 1926, and shall cover the period from the date of the organization of Cochran county to and including October 31, 1926. The verification of records of the succeeding years to be begun on November 1st of each year beginning 1927, or as near that date as is practicable and to be completed as rapidly as is consistent with thorough and accurate auditing.

"As compensation for said work first party agrees to pay to second party at the rate of twenty-five dollars per day for each senior accountant who shall be employed by second party therefor, and at the rate of fifteen dollars per day for each junior accountant who shall so be employed, said second party to employ not exceeding two senior accountants, in said work, the number to be so employed to be determined by second party. The said second party to employ not exceeding two junior accountants. And in addition to such compensation, first party is to pay the expense of each of said accountants while actually employed in said work.

"Executed in duplicate, each copy to be original, this the 8th day of November, 1926. County of Cochran, Texas, by J. D. Caldwell, County Judge, G. H. Mathews, Commissioner, Pre. 1, \_\_\_\_\_, Commissioner, Pre. 2, W. A. Herridge, Commissioner, Pre. 3, Lem Shipmen, Commissioner, Pre. 4. (First party.) West Audit Company, by M. E. West. (Second party.)

"Motion made by Commissioner Shipmen and seconded by Commissioner Mathews, to allow account filed by West Audit Company in amount of \$10,000.00 for auditing county records to November 1, 1926, same being in the denomination of \$1,000.00 each, and being dated November 19, 1926."

That on December 20th thereafter, the commissioners' court passed and entered on the minutes of the court the following order:

"Whereas, there is doubt as to the final settlement of the claim of the West Audit Company and the issuance of the warrants and cheques by the officers of the county therefor; therefore,

it is the judgment of the court that certain outstanding cheques of the county treasurer should be held up and not paid at this time, and the county treasurer is hereby instructed to have the bank to stop payment of said cheques pending further orders of this court."

The county alleges that on November 19, 1926, the commissioners' court and plaintiff caused ten warrants of \$1,000 each, numbered from 1215 to 1224, inclusive, to be issued by the county clerk of Cochran county, payable to plaintiff, and, on the same date, the plaintiff presented to the treasurer of the county five of such warrants, numbered 1215 to 1219, inclusive, and the treasurer issued and delivered to plaintiff the five cheques sued on; that while said orders and the account of plaintiff purport to show that plaintiff had been engaged to audit the books of Cochran county and make a report thereof, in truth and in fact, no such report and order had been made and delivered, and that the cheques sued on and the warrants upon which they were issued and warrants numbered 1220 to 1224, inclusive, now in the possession of plaintiff, and the purported contract between Cochran county and plaintiff, are all void and of no effect, because said warrants and cheques were issued without consideration, in that, at the time of their issuance, plaintiff had not and has not to this date performed the services for said warrants and cheques; that the commissioners' court was without authority to allow the account as presented until the service had been performed; that if it is mistaken as to its plea of failure of consideration, then it says that the cheques and the warrants upon which they are based are void, because issued on the representation of plaintiff that it would, within a reasonable time audit the books of Cochran county, to and including December 31, 1926, which it has failed and refused to do; that the \$10,000 purported to be allowed for the services of plaintiff in auditing the books of the county is out of proportion to the value of the services rendered, is unconscionable, and a fraud upon the taxpayers and the county, which was sparsely populated, as the reasonable value of the services contemplated in the contract could not have exceeded \$1,200; that said cheques and warrants are void because the purported contract was not entered into in compliance with the provisions of articles 1641 and 2368, R. C. S. 1925; there was no resolution in writing reciting the reasons and necessity for such audit presented at any regular or called session of the court, and permitted to lie over until the next regular term, nor any publication in any newspaper or any posting of such notice, as required by law; that the contract was not let by competitive bidding, no bond was required to guarantee the performance of the contract, and no advertisement as required by law; that at the time the cheques sued on were issued and delivered, there were no funds in the depository of Cochran county sufficient to pay said cheques; that said cheques and warrants are and were void from their inception and issuance, because they created a debt payable in the future, without any provision having been made at the time of their issuance for the levy and collection of a sufficient tax to pay the interest and create a sinking fund to discharge them at maturity, and it was contemplated by

the parties that the indebtedness evidenced by such cheques and warrants would be paid from the fund of future years or from money to be borrowed by the sale or refunding of said warrants.

The county asked for a temporary injunction, restraining the plaintiff from disposing of the cheques and warrants during the pendency of the suit; that neither the plaintiff nor the defendant bank be allowed to recover; and that it have judgment against the bank for \$1,517.68, and that a decree be entered canceling the cheques sued on and all the warrants outstanding in the hands of the plaintiff.

In reply to the pleadings of Cochran county, the plaintiff answered by general and special exceptions, general denial, and pleaded that if it should be held that the cheques sued on and the warrants mentioned were, for any reason void, then Cochran county, acting through its commissioners' court, entered into a contract with it in good faith, for auditing its books, and about October 31st it began the services contemplated in the contract, and diligently performed such services; that the contract was one that the court had the power to make and was made for a lawful purpose; that the county accepted the services of the plaintiff in the performance of the contract and received the benefit of such services, by reason of which the county should, in good conscience and equity, be required to pay the reasonable value of the services rendered, which plaintiff alleges was \$10,000; that the plaintiff was permitted to perform the labor and incur the expense contemplated, and an implied contract arose, binding the county to pay the reasonable value of the services; that if, for any reason, the contract is invalid, the same was executed by the commissioners and county judge with full knowledge of its invalidity, and by permitting the plaintiff to perform the contract the county thereby ratified the same and is estopped from asserting its invalidity as a defense; that after performing a part of the services contemplated by the contract, at the special instance and request of the commissioners' court of the county, the plaintiff presented its claim for services rendered, and to be rendered, with the express understanding that the commissioners' court had made arrangements with W. J. Haun & Co. to finance the general fund of the county for 1926, and that the warrants so issued would be taken up and the money paid into the county treasury, and then to plaintiff, upon the completion of the contract, or so much of said amount as the plaintiff would be entitled to receive for the services rendered; that it was understood that after the warrants had been sold and the money secured, that the county was to pay to the plaintiff so much of the money as would be sufficient to pay the amount due plaintiff under the contract; that the claim held by plaintiff against the company was audited, passed on, and approved by the commissioners' court, the warrants issued in satisfaction thereof, and the plaintiff was instructed to surrender said warrants and accept the five cheques sued on, which it did.

In response to special issues submitted by the court, the jury found in effect that the West Audit Company performed the services contracted to be performed in the audit of the books and accounts

of Cochran county, and that the fair, just and reasonable value of the services so performed was \$5,000.

On this verdict, judgment was rendered in favor of the plaintiff against the First National Bank of Lubbock for the sum of \$1,342.68, and against Cochran county for the sum of \$3,657.32, with interest on said amounts from date at the rate of 6 per cent. per annum, from which judgment Cochran county appeals.

(1) The appellant challenges as error the action of the court in rendering judgment for appellee, because no resolution in writing stating the reasons and necessity for an audit was presented to the court and permitted to lie over until the next regular term; no notice of such resolution was published or posted as required by article 1641, R. C. S. 1925; notice of the time and place when and where the contract would be let was not advertised; and such contract was not submitted to competitive bidding, as required by article 2368, R. C. S.

Article 1641 provides that the resolution may be presented in writing, but shall lie over until the next regular term. Article 2348 provides that the regular term of the commissioners' court shall be held on the second Monday in each month, or that it may be held quarterly.

The record discloses that the commissioners' court met in regular session on September 13, 1926; that it met on October 11, 1926, which was the second Monday of that month, and passed an order for the employment of appellee to audit the books. The contract of employment was passed on November 23, 1926, at a special session, but is dated as of November 8, 1926, which was the second Monday in November. Hence, in our opinion, the record shows that the order passed October 11th, for the employment of appellee, did lie over until after the next regular term of the court, which met November 8th.

(2, 3) An analysis of the provisions of articles 1641 and 2368 discloses so many conflicts in the provisions of the articles that in our opinion article 1641 does not refer to article 2368; article 1641, being a special article relative to the employment of auditors, would control rather than article 2368. Under article 1646a, we are inclined to the view that the commissioners' court of Cochran county would be authorized to employ an auditor without a rigid compliance with article 1641. However, if article 1641 refers to article 2368, it would not follow that this contract is void, as it provides for payment for the services of the auditors at so much per day, and a competent auditor possesses special skill and technical learning.

Contracts by municipalities for services requiring special skill or technical learning are not controlled by statutes requiring the letting of such contracts by competitive bids. *W. A. Tackett v. W. K. Middleton* (Tex. Com. App.) 280 S. W. 563, and 44 A. L. R. 1143, and annotations thereunder, 1150.

(4) This record does not disclose affirmatively whether the trial court held the contract valid or invalid, as the recovery allowed was on appellee's plea of quantum meruit. Clearly the commissioners' court had the power to employ auditors to make an audit of the books and accounts of the county, and the irregularities in the procedure by

which this contract was made are not such as to defeat appellee's recovery on a quantum meruit.

When the bill for the services was presented, no objection was made to the competency of the auditors or to the completeness or correctness of the audit. The only controversy was over the amount of appellee's claim. *Boesen v. County of Potter* (Tex. Civ. App.) 173 S. W. 462; *City of San Antonio v. French*, 80 Tex. 575, 16 S. W. 440, 26 Am. St. Rep. 763; *City of Denson v. Foster* (Tex. Civ. App.) 28 S. W. 1052; *Brand v. the City of San Antonio* (Tex. Civ. App.) 37 S. W. 340; *Berlin Iron-Bridge Co. v. City of San Antonio* (Tex. Civ. App.) 50 S. W. 408; *Wagner et al. v. Porter* (Tex. Civ. App.) 56 S. W. 560; *City of Dallas v. Martyn*, 29 (Tex. Civ. App.) 201, 68 S. W. 710.

(5) Appellant assails as error the action of the trial court in entering judgment in favor of appellee, because at the time the debt was incurred no provision was made for levying and collecting a sufficient tax to pay the interest and provide a sinking fund to pay such debt, and there was no reasonable contemplation that it could be satisfied out of the current revenue for the year, or any fund then within the immediate control of the county. The cheques upon which this suit is based are dated October 19, 1926, drawn upon the First National Bank of Lubbock, Tex., the depository of the county, and made payable to appellee. These cheques were given to take up and discharge five warrants theretofore issued by the clerk to the appellee on order of the commissioners' court, and both warrants and cheques, as disclosed upon their face, are payable out of the general fund on presentation.

On November 26, 1926, the treasurer wrote the depository, in effect, not to pay appellee's cheques until notified to do so, as appellee had promised to hold them until the county notified it that the money was in the depository. On November 29th, the treasurer wrote the depository substantially that in her letter of November 26th, she only meant to advise that payment on the cheques was to be stopped until the money had been sent to take them up; that the county would probably get a delivery order on that day; and as soon as it was disposed of, the money would be sent to the depository to take up the \$5,000 of the West Audit Company's cheques.

On December 20th, the commissioners' court passed an order to the effect that the cheques should not be paid at that time on account of some doubt as to the final settlement, and the county treasurer was instructed to have the bank stop payment until further orders of the court.

The record discloses, in an order of the commissioners' court, that the county had a contract with W. G. Haun & Co. of Wichita, Kan., to the effect that said company would take up the script or vouchers issued against the general fund of the county to the extent of \$20,000. A proper order had been entered for levying and collecting a sufficient tax to pay the funding warrants issued to Haun & Co., and the validity of this arrangement is not questioned, and appears to have been carried out.

The county clerk testified:

"Page 259 of the minutes of the commissioners' court covered the order of August 14, 1926. \$20,000

worth of warrants were ordered issued in that order. There was \$675.34 worth of script ordered taken up on that day and set out in that order. On September 13, 1926, there was \$8,272.30 worth of script taken up and listed in the order of that date, as per the order of August 14th. On the 10th day of September, 1926, there was \$1,246.72 taken up in that order. On the 21st day of October, there was \$2,178.29 taken up, script taken up in compliance with the order of August 14th. The total of the script taken up under date of December 13th, which included warrants dated prior to Nov. 8th, amounted to \$4,406.09. The following warrants were taken up prior to Nov. 8th, in that order: Oct. 21, \$50.00; Oct. 21, \$50.00; Oct. 21, \$50.00; Oct. 21, \$50.00; Nov. 1, \$75.00; Nov. 1, \$50.00; Nov. 1, \$83.13; Nov. 1, \$75.00; Nov. 1, \$150.00; Nov. 1, \$125.00; Nov. 1, \$166.66; Nov. 1, \$150.00; Oct. 13, \$12.05; Oct. 23, \$50.00; Oct. 23, \$2.32; Oct. 23, \$50.00; Nov. 5, \$1,500.00. I have not figured up to see how much of the \$20,000 had been taken up on November 8th. I do not know how much of the four cents out of the twenty-five cents that had been levied, had been appropriated. It was still unappropriated for that year. This \$20,000 went to take up current expenses."

The total valuation of the property subject to taxation in Cochran county was \$4,895,744.00; 4 cents of the 25-cent limit had not been appropriated, and 4 cents on the \$100 valuation on said amount is \$1,958,297. This, with the unappropriated balance of the funds in the hands of Haun & Co., at the date of the contract, was sufficient to pay the appellee for auditing the books.

Mr. West testified, without contradiction, that the trade was a cash transaction, and the intention and understanding, at the time of the contract, was that the payment should be made out of the current funds of 1926.

There are numerous other circumstances in the record tending to show that the intention of the parties was to pay for the auditing out of the current funds of 1926; but in our opinion the above is sufficient to warrant the conclusion that payment was to be made out of such funds, and that, in the reasonable contemplation of the parties, there were sufficient funds within the immediate control of the county to discharge the indebtedness. *McNeal v. City of Waco*, 89 Tex. 83, 33 S. W. 322; *Austin Bros. v. Patton* (Tex. Com. App.) 288 S. W. 182; *Colonial Trust Co. v. Hill County* (Tex. Com. App.) 294 S. W. 516; *Grimes Co. v. Slayton & Co.* (Tex. Civ. App.) 262 S. W. 209; *Bridgers v. City of Lampasas* (Tex. Civ. App.) 249 S. W. 1083; *City of Aransas Pass v. Eureka Fire Hose Co.* (Tex. Civ. App.) 227 S. W. 330; *City of Houston v. Glover*, 40 (Tex. Civ. App.) 177, 89 S. W. 425; *Foard County v. Sandifer*, 105 Tex. 420, 151 S. W. 523; *Powell, Garard & Co. v. Erath County*, Tex. (C. C. A.) 274 F. 305; *City of Corpus Christi v. Woessner*, 58 Tex. 462.

(6, 7) The fact that the cheques were not paid out of the current funds available therefor, in the year 1926, does not affect appellee's right to recover. *Winston v. City of Fort Worth* (Tex.

Civ. App.) 47 S. W. 740. Nor in our opinion would the excessive estimate, at the time of the contract, made as the probable cost of the services and the issuance of warrants therefor, which were never presented, paid or liquidated, defeat appellee's recovery of the reasonable value of said services, which the jury found to be \$5,000. *Nolan County v. State*, 83 Tex. 201, 17 S. W. 823; *Noel Young Bond & Stock Co. v. Mitchell County*, 21 (Tex. Civ. App.) 638, 54 S. W. 284; *Cass County v. Wilbarger County*, 25 (Tex. Civ. App.) 52, 60 S. W. 988.

No question of fraud was submitted to the jury and none requested, and in view of the judgment and the testimony in the record, we must assume there was no fraud, and that the appellant and appellee acted in good faith in making the contract.

(8) The appellant assigns as error the action of the trial court in excluding the testimony of P. L. Thacker to the effect that during the year 1927 the commissioners' court of Cochran county had caused an audit of its books and records to be made covering the time from the organization of the county to January 1, 1927, for the sum of \$1,836.

The appellant did not offer to show the ability, learning, experience, or standing of the party that he sought to prove had made the audit for \$1,836 nor that such audit was full, complete, and correct. Neither did it offer to show the usual and customary charges of auditors for such services. "What is reasonable compensation for labor is not determined by what some one man may be willing to take for like labor, but by what the general rule may be as to charges for such labor among members of the certain craft, occupation, or profession." *Cooper v. Gordon* (Tex. Civ. App.) 23 S. W. 608.

In addition to this, the witness Bond testified, in effect, that the commissioners' court had had an audit made at one fifth of the cost of the audit made by appellee.

(9) Appellant's assignment assailing as erroneous the submission of special issue No. 2, because it assumes that appellee performed the services, is not tenable. The issue reads: "What sum, if any, do you find is a fair, just and reasonable fee for the services performed, if any, by West Auditing Company?" This issue clearly leaves the jury to determine whether or not the services had been performed.

In our opinion, the testimony is amply sufficient to support the findings of the jury, and the assignments presenting the insufficiency of the evidence are not tenable.

(10) The appellant assigns as error the action of the court in failing and refusing to cancel warrants Nos. 1220 to 1224, inclusive, because the jury having found that the reasonable worth of appellee's services was \$5,000, and as said warrants were still in appellee's possession and not tendered into court, should have been canceled. This assignment, we think, should be sustained, and the judgment of the court will here be reformed, to cancel and annul said five warrants Nos. 1220 to 1224, inclusive, and, as so reformed, is affirmed.

An article entitled "Mechanics of the income-tax return," by N. L. McLaren, San

Francisco, appeared in the *California Bankers Association Bulletin* recently.

## REVIEWS

### GEORGE O. MAY—"CARRIER PROPERTY CONSUMED IN OPERATION AND THE REGULATION OF PROFITS"

Article published in *The Quarterly Journal of Economics*, February, 1929.

In determining whether a carrier's rate structure is compensatory or confiscatory, Mr. May says at the start, it is necessary to make allowances, first, for the use of the carrier property (which it is generally agreed should be in the form of interest at a percentage rate on the fair capital value of the property) and, second, for its consumption. Controversy arises over the question of computing the capital value—the rate base—and of determining the rate of return thereon; and also over the problems of the basis on which allowance in money should be made for consumption of property, and of whether it should be made as the consumption proceeds, when it becomes complete, or when it is made good.

The interstate commerce commission recently took the position that cost is the proper basis of the charge for property consumed and that depreciation (by which the commission means straight-line depreciation) should be deducted in full, as accrued, in ascertaining the rate base value. Both opinions are in opposition to supreme court decisions.

Mr. May directs his consideration of the depreciation problem by the following specific questions: (1) Should charges for consumption of property in rendering service be based uniformly on cost (a) for purposes of rate and profit regulation; and (b) for current accounting purposes? (2) Should the charge for property consumed be made in bulk at the time when each unit is retired, or should it be anticipated by periodical instalments spread over its service life? (3) If consumption charges are to be made as consumption proceeds rather than when it becomes complete, on what basis should the accrual be deemed to take place and be computed?

Before answering them, the author discusses at some length the so-called "present-value theory" and "prudent-investment theory" of computing the rate base. Apparently the majority opinion in a relevant supreme court decision stipulates that present value must be the measure of the rate base. The prudent-investment concept, on the other hand, is adaptable to fluctuating conditions. Mr. May points out that under the latter theory any one of four factors can be stabilized: fixed money income, capital value of investment in money, real income or capital investment in terms of purchasing power.

After demonstrating that the basis for rate and profit regulation and for current accounting purposes should be the same, the writer answers his first question as follows, with ample explanation in support of his conclusion: (1) If the rate base is to be computed on the present-value theory then the balance of argument is slightly in favor of *original cost* as the basis of the exhaustion charge if provision is to be made as exhaustion proceeds, and slightly in favor of *replacement cost* if the charge

is to be made when exhaustion is complete. (2) If the rate base is to be computed on the prudent-investment theory, then the balance of argument is decidedly in favor of replacement cost as the basis of the exhaustion charge if exhaustion is provided for as it proceeds, and still more decidedly if the charge is to be made only in bulk when the exhaustion is complete.

With reference to his second fundamental question, Mr. May considers the four reasons which apparently have influenced the commission to favor a complete depreciation scheme.

The first is that existing methods do not take out of capital or charge into operating expenses an exhaustion of value that has undoubtedly taken place. On the basis of exhaustive inquiry into actual conditions, the writer expresses disagreement with this conclusion.

The second apparent reason is that the existing methods facilitate manipulation of operating expenses through excessive or inadequate expenditure for maintenance. The writer says that there is the gravest doubt whether opportunities for manipulation would be lessened by adoption of a general depreciation scheme.

The third opinion ascribed to the commission is that such a plan strengthens the financial position of the carrier and puts it in a position to render better service. Mr. May believes that such financial strengthening could be effected at least as adequately in other ways under the commission's powers of regulation.

Fourth, the commission seems to believe it necessary to bring accounting and valuation methods into harmony, a question which involves the relationship between maintenance charges and valuation. The proposed method of the commission, in the opinion of the writer, is too theoretical, and its application would not even approximately reflect the lessening of worth in service due to the partial exhaustion of useful life.

Finally, the writer turns to consideration of his last principal question, on what basis the accrual of depreciation shall be computed. He describes the four recognized alternatives: the straight-line method, the sinking-fund method, the annuity method and the diminishing-balance method. After examination of each possibility he concludes that the annuity method is the only consistent one. If this method is properly applied the depreciated value will be the fair value in service subject to fluctuations in new value and to the effecting of normal maintenance.

In conclusion, the writer offers the following points: (1) Unless a depreciation scheme is in force, cost of replacement rather than original cost is the proper basis for charges for property consumed in operation. (2) While depreciation schemes are an invaluable part of industrial accounting, a general system of depreciation charges for railroads is not today desirable. (3) The case for such a system would be weakened if the prudent-investment theory of rate base were to be adopted as the commission seems to think it should be. (4) The particular form of depreciation scheme put forward by the commission—the straight-line method—is demonstrably inappro-



priate for the purpose sought to be achieved. (5) The commission's plan lacks one essential of any satisfactory scheme, namely, a practicable and equitable method of dealing with the depreciation deemed to have accrued prior to the initiation of the scheme.

THOMAS J. BURKE—"DEPRECIATION RESERVE FUNDS AND REPRODUCTIVE VALUES"

Address delivered at the semi-annual convention of the Cost Association of the Paper Industry, New York, February 20, 1929. Published in *Pulp and Paper Profits*, February, 1929.

An example of straight-line depreciation opened the address. Mr. Burke said that if depreciation for any asset is calculated at a fixed annual rate, a bookkeeping entry is made charging profit and loss with the amount necessary and crediting reserve for depreciation with the same amount, so that at the end of the estimated life there will be a credit to the reserve-for-depreciation account in an amount sufficient to replace the asset. However, the actual cash for such replacement is not provided by this bookkeeping entry. Theoretically, Mr. Burke said, the annual charge to profit and loss and credit to reserve for depreciation should be supplemented by a debit to depreciation reserve fund and a credit to the bank account, reflecting an actual transfer of money to a special account set aside for the replacement of the asset. Practically, of course, this procedure is not followed because the actual money can be used to better advantage elsewhere.

In the pulp and paper industry, he continued, the investment in fixed assets is always as much as fifty per cent. of the total capital invested and often amounts to seventy-five per cent. or more, and the problem of actual cash funds with which to make a large capital replacement is naturally difficult. Rates of depreciation may not be entirely accurate. Necessarily they are largely a matter of opinion. Again, a major improvement may be made in the art which might require replacement much sooner than expected. It was the speaker's opinion that in the pulp and paper industry, concerns are using as working capital funds which should be assigned to special depreciation reserves. He did not advocate that the money necessarily be left in bank for the entire period of the life of the assets concerned, but that as a test of the liquidity of the business and to conform to good business practice the transfer of funds should actually be regularly made at the end of each fiscal period. The exigencies of the business could then govern the length of time they should remain there. However, Mr.

Burke believed that such funds should be drawn only for the improvement of fixed assets. If they were required for other purposes, he asked, would it not appear that the business was in need of more capital?

He also was in favor of an interest charge against operations for amounts borrowed from a depreciation reserve fund for additions or improvements, for the reason that if such money were invested in sound securities the depreciation reserve funds would be increased by the amount of the interest.

The speaker compared the situation with that in which bonds have been issued for the full amount of fixed assets. In this case it would be necessary to set aside yearly an amount sufficient to amortize the bonds and to pay the interest. Actually, instead of dealing with bondholders, who require this procedure, concerns are dealing with stockholders who rely on the integrity of the management to conserve their investment, and Mr. Burke intimated that the interest charge should be an equal obligation in both cases.

He next referred to the theory of calculating depreciation on reproductive value. He said that there were several practical reasons against this theory, one of which is the difficulty of enlisting the interest of the average executive in problems of this kind. The speaker was in favor of treating as a separate problem the question of depreciation of currency. If the cost of an asset is much less than its reproductive value, he argued that a special reserve from profits should be set aside yearly to make up the difference between depreciation computed on the two bases. The necessity of considering reproductive values was, however, questioned. If the actual amount necessary to depreciate assets by the straight-line method were set aside annually in a separate bank account and the funds invested at six per cent., Mr. Burke believed that adequate provision would be made with the simplest possible accounting methods. The difficult calculation of reproductive costs is, the speaker said, unnecessary. By making allowance for interest accruals in calculating depreciation under the straight-line method, he maintained provision will be made for possible increased cost of reproducing the plant. Mr. Burke illustrated this theory by a hypothetical example.

He stressed the importance of watching the proportion of ratio between capital investment and investment in fixed assets. He drew particular attention to the fact that money invested in fixed assets turns over once in fifteen years, money in inventories about once in ten weeks and money in accounts receivable about once in four weeks. With particular reference to the theory of reproductive values, Mr. Burke drew attention to the possibility that due to decline in gold production lower prices might prevail during the next few years.

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On March 11th C. Oliver Wellington, Boston, addressed a meeting of cost accountants and credit men in Providence, Rhode

Island, on "Interpreting the balance-sheet," and on March 14th he spoke before a meeting in Worcester.

## EMPLOYMENT EXCHANGE

The steady decrease in demand for staff assistants which is expected by public accountants at this time of the year has been evident during the past month, but it is believed that the usual large turnover of personnel has been checked considerably. Many firms have been able to retain up to this time a considerable number of the temporary assistants engaged for the winter rush, and a few large firms have been able to reach the first of May without discharging a man.

However, personnel managers are not in the humor for employing new staff accountants and it is probable that until the first of August at the earliest there will be few positions open. The employment exchange is in communication with a steadily increasing number of firms and it is expected that many calls for men will be received in the late summer and early fall. Therefore, it is suggested that accountants who expect to be available at that time register with the exchange so that there may be a record of men suitable for every type of position.

Following is a list of applicants now available:

No. 51A—Member, American Institute of Accountants, with 24 years' experience in public accounting. Has been branch office manager and principal of large firm. Age 45. Salary open. At present resides in New England. Will go anywhere.

No. 53A—Member, American Institute of Accountants, C. P. A. (Mass. and N. C.) with 20 years' public accounting experience. Has held position as branch manager. Age 51. Salary open. Now in North Carolina. Prefers Boston, but would go anywhere.

No. 39A—Member, American Institute of Accountants, seeking executive position in public accounting firm or in private concern near New York. C. P. A. (N. Y., N. J., Pa.). Twenty years' public accounting experience. Salary \$5,000.

No. 46A—Member, American Institute of Accountants. More than 15 years' public accounting experience. Has come to New York from Kentucky and wishes position in New York.

C. P. A. (Ky.) and member Kentucky bar. Age 41. Salary open.

No. 57A—Senior accountant, member, American Institute of Accountants. Eight years' public accounting practice with large firms. Age 39. Wishes position anywhere. Salary open. Now in New York.

No. 44A—Associate, American Institute of Accountants, N. Y. U. graduate, C. P. A. (Ind., Tenn., Fla.). Six years' public practice and two years' utility experience. Desires position as traveling auditor. Speaks Spanish, single, will travel anywhere.

No. 50A—Associate, American Institute of Accountants. Four years' public accounting experience as staff member and on own account. Is seeking permanent position with public accounting firm. Age 35, no objection to travel. Salary about \$4,000. Now in New York.

No. 56A—Associate, American Institute of Accountants. C. P. A. (Ill., Ohio). Fifteen years' experience in public accounting with large firms and on own account. At present in Florida. Prefers position in Cleveland but will go anywhere. Age 46. Salary about \$6,000.

No. 24A—Senior accountant in New York with fourteen years' experience, 39 years old, seeking permanent or temporary staff position. No objection to travel.

No. 23A—Senior accountant, age 37, now in Florida, wishes position in another state. Six years' public accounting experience. Salary about \$250.

No. 45A—Senior accountant now in Florida, wishes position in any other part of the country. Age 40. Twenty years' accounting experience. Salary \$250-\$300.

No. 53A—Senior accountant. Twenty-five years old. C. P. A. (D. C.). Five years' public accounting practice. Wishes position anywhere. Salary \$4,000. At present in Washington, D. C.

No. 52A—Semi-senior in New York, two years' public practice, seeks position in some other city.

No. 54A—Semi-senior, 30 years of age, now in Florida, wishes position in New Haven or New York. Six years' public practice.

No. 55A—Semi-senior with 14 months' experience in New York. College graduate.

The Institute has not investigated the statements of applicants and disclaims responsibility for their accuracy.

Meldrum & Meldrum, Louisville, Kentucky, announce the removal of their offices to suite 403-5 Hilliard building, 419 West Jefferson street.

Allen R. Smart & Co. have announced the removal of their New York offices to the New York Central building, 230 Park avenue.

## OBITUARY

### **Elijah Bates**

Elijah Bates, a member of the American Institute of Accountants, died in Cleveland, April 21st. Mr. Bates was a certified public accountant of Indiana and was employed by R. O. Eastman, Inc. He was admitted to the Institute in 1923.

### **Frederick W. Child**

Frederick W. Child, one of the oldest accountants in Connecticut, died at Noroton

on May 1st. He had been a member of the American Association of Public Accountants and a charter member of the American Institute of Accountants, but he resigned from the Institute in 1921 upon retirement from active practice. He was a certified public accountant of Connecticut, holding certificate No. 4.

Mr. Child served in the union army during the Civil War. He was eighty-five years old at the time of his death.

## HERE AND THERE

David Berdon & Co., New York, announce that Norman S. Siegel has been admitted to partnership in the firm.

Andrew H. Blass & Co. and The Wm. A. Wood Co. announce the consolidation of their practices under the firm name of Blass, Wood & Co., with offices in the Law and Finance building, Pittsburgh, Pennsylvania.

Carneiro, Chumney & Co., San Antonio, Texas, announce the removal of their offices to the Smith-Young Tower.

David Elder & Co. announce that their offices have been moved to 44 Beaver street, New York.

Hein, Greene & Wolcott, 504 Capitol building, Binghamton, New York, announce the change of the firm name to Green & Wolcott.

Hutchinson & Smith, 1306 Santa Fe building, Dallas, Texas, announce a change in the firm name to Hutchinson, Smith, Prince & Harris. The firm is now composed of Loyd B. Smith, William D. Prince and Joseph C. Harris.

Martin Kortjohn & Co. announce the removal of their offices to 10 East 40th street, New York.

W. Paxton Little has announced the opening of an office at 701 Electric building, Buffalo, New York.

Mattison, Davey & Winters, New York, have moved their offices to the Chanin building, 122 East 42nd street.

Walter K. Mitchell, Fred D. Bullock and H. A. Kellogg announce the formation of a partnership with F. W. Lafrentz & Co. under the name of F. W. Lafrentz & Co. Bullock, Kellogg & Mitchell.

Niles & Niles announce the removal of their New York office to 165 Broadway.

Puder & Puder, Newark, New Jersey, have announced the opening of new offices in the Military Park building, 60 Park Place.

Worcester Putnam announces the opening of offices for the practice of public accounting in the Hall building, St. Petersburg, Florida.

Lawrence Scudder & Co. have announced the removal of their New York office to 120 Broadway.

Squires & Co., New York, have moved their offices to the north wing of the Architects' Offices building at 101 Park avenue.

Scovell, Wellington & Co. announce the removal of their New York offices from 270 Madison avenue to 10 East 40th street.

Announcement has been made by Arthur Young & Co., Detroit, of the opening of new offices on the 29th floor of the Union Trust building.

# BULLETIN

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JUNE 15, 1929

SERIES B, No. 62

### Annual Meeting, American Institute of Accountants

The committee in charge of arrangements for the annual meeting of the American Institute of Accountants at Washington, D. C., September 16-19, 1929, has sent a circular notice to all members and associates announcing tentative plans for the meeting.

Officers and representatives of many foreign accounting organizations have accepted invitations to attend the Institute's meeting.

The Hotel Carlton has been selected as headquarters. Its facilities are good and the management is cooperating actively with the committee in an effort to insure a successful meeting. Special rates have been offered Institute members for the days of the annual meeting. The committee is confident that the registration fee can be kept down to a modest figure.

It is expected that a prominent officer of the federal government will consent to deliver an address at the annual banquet.

Technical papers will be read at the business sessions, and subsequent discussion will be introduced by authoritative speakers.

The customary golf tournaments will be held on the afternoon of the opening day of the meeting, September 16th. Arrangements for golf will be made at the Chevy Chase country club and at the Congressional country club. It is expected that an unusually large number of teams representing state societies and chapters of the Institute will compete for the Missouri golf trophy.

Other plans for entertainment include sightseeing trips by airplane or motor, boat trips on the Potomac river, a theater party and teas and bridge parties for the ladies. A special committee of ladies is to be organized.

### Special Meeting of Council as Trial Board

The council of the American Institute of Accountants was called to sit as a trial board at a special meeting at Washington, D. C., on June 10th, for the purpose of hearing complaints against members charged with violations of the rules of professional conduct.

### New Rule of Conduct

An addition to the rules of professional conduct of the American Institute of Accountants was proposed at the meeting of council on April 8, 1929. The council has now approved the proposed rule by mail ballot and the president of the Institute has declared the rule effective May 16, 1929.

The text of the rule, which will be No. 12, is as follows:

"No member or associate of the Institute shall be an officer, a director, stockholder, representative, an agent, a teacher or lecturer, nor participate in any other way in the activities or profits of any university, college or school which conducts its operations, solicits prospective students or advertises its courses by methods which in the opinion of the committee on professional ethics are discreditable to the profession."

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## **American Institute of Accountants Examinations**

On May 20th the examiners of the American Institute of Accountants commenced marking the papers of candidates at the C. P. A. examinations held May 16th and 17th by the various states which co-operated with the Institute. Reports of results were mailed to state boards on June 11th. Twenty-nine states and two territories co-operated with the Institute. Approximately 650 candidates took the Institute examinations.

### **Northern Ohio Chapter, American Institute of Accountants**

The regular spring meeting of the Northern Ohio chapter of the American Institute of Accountants was held at the Hotel Cleveland, Cleveland, April 29th. Twenty-nine members and guests were present. Floyd R. Chilton, vice-president of the chapter, presided. William J. Taylor spoke on the personal-property tax rates in Ohio and other members participated in a discussion of the same subject. Carl H. Nau suggested that the members of the chapter do all in their power at the next election to facilitate ratification of the proposal for equal representation in the Ohio legislature. It was reported that a new roster of members of the chapter had been published and distributed during the year. At present there are 45 members.

### **Reprints of "Verification of Financial Statements"**

The instructions for verification of financial statements which were published in *The Journal of Accountancy* for May, 1929, have been reprinted in pamphlet form by the federal reserve board and will be distributed at a price of 10 cents each. In the *Federal Reserve Bulletin* for May, 1929, the following statement appeared:

#### **REPUBLICATION OF PAMPHLET ON ACCOUNTING METHODS**

In April, 1917, the federal reserve board printed in the *Federal Reserve Bulletin* and separately in pamphlet form a memorandum on approved methods for the preparation of balance-sheet statements, the demand for which has been such that approximately 65,000 copies of the pamphlet have been printed and distributed. The suggestions in the pamphlet have now been before the public for more than 11 years and various criticisms and suggestions

for minor changes have been made. These criticisms and suggestions have been reviewed by a special committee of the American Institute of Accountants appointed for the purpose and the Institute has now furnished the board with a revised edition.

The board is impressed with the desirability from the standpoint of the general credit structure of the country of having sound accounting principles followed in the preparation of financial statements. It has, therefore, had the revised edition printed under the title "Verification of financial statements" and is prepared to distribute the pamphlet to the public at 10 cents a copy.

### **Accountants and Bankers Discuss Verification of Financial Statements**

At the May meeting of the Pittsburgh chapter of the Pennsylvania Institute of Certified Public Accountants held May 28th, in conjunction with the local chapters of the National Association of Cost Accountants and the Robert Morris Associates, the document entitled "Verification of financial statements," a recension of the federal reserve board pamphlet, "Approved methods for the preparation of balance-sheet statements," was the chief topic of discussion.

J. C. Nevin, managing director of the Pittsburgh branch of the Federal Reserve Bank of Cleveland, was the principal speaker, and A. D. Robb, vice-president of the Colonial Trust Company and president of the Pittsburgh chapter of the Robert Morris Associates, was a guest at the meeting.

The recommendations of the American Institute of Accountants set forth in the document were discussed in detail and it was felt that the matter presented in the revised pamphlet, which offers excellent opportunity for discussion at joint meetings, would do much to effect coöperation between bankers, public accountants and industrial accountants.

### **Institute Member To Be Third Assistant Postmaster General**

Appointment of Frederick A. Tilton of Detroit, a member of the American Institute of Accountants and a former member of council, as third assistant postmaster general of the United States was announced at Washington, June 4th.

Mr. Tilton will succeed Robert S. Regar and will assume his new duties in the near future. He is a certified public accountant of Michigan and member of the firm of Haskins & Sells.

## **International Congress on Accounting**

Preliminary plans for the international congress on accounting to be held at New York during the week of September 9, 1929, are virtually complete. The programme of technical papers and discussion is practically finished and elaborate plans for entertainment have been arranged under the direction of Andrew Stewart, New York.

The American Institute of Accountants will be host at a luncheon to foreign delegates attending the congress.

## **Question of Accountants' Registration Reopened in England**

The controversial subject of registration of professional accountants, which has long been a moot point in the British Isles was recently reopened by a statement by Sir Thomas Robinson, chairman of the local legislation committee of the house of commons, in giving a decision in the recent Chester Corporation case. He said:

"I am desired to say that, in the opinion of the committee, sound and reliable accounting is of paramount importance to industry, commerce and the investing public, and with a view to establishing an efficient accounting public service we consider the time is opportune—in fact, we think it has arrived—for establishing a register of properly qualified persons, on the lines of the law and the medical service, and we suggest to the accounting world that they should seriously consider the matter of the register, the training and the qualifications, as the committee feel that all qualified persons should have the opportunity of giving public service. We trust that our observations will be considered seriously, because although nobody can tell who will be on this committee in the next parliament, those who are on the committee will have some difficulty with a clause like this unless something is done by the accounting world, and we therefore ask the accounting world to take note of our observations."

This statement produced immediate reaction in the two leading professional societies of accountants. The president of the Society of Incorporated Accountants and Auditors, at its first meeting in its new home, Incorporated Accountants' Hall, reminded the members that since an accountants' registration bill was dropped in 1911, owing to an accident of procedure in the house of commons, no suitable opportunity of reviving it had occurred until now. The society's present intention to proceed with the promotion of such a bill has been en-

couraged by the statement of the member of parliament that the time seems opportune for the establishment of a registry of properly qualified accountants. A committee has been appointed to take steps in the matter.

*The Accountant* of May 25th devotes a good deal of space to editorial discussion of the question and points out the numerous difficulties of formulating a bill which would be sufficiently exclusive to satisfy the present members of the profession who are accredited and at the same time not antagonize other groups of accountants, tax experts and practitioners of other kinds whose functions overlap to some extent those of accountants. The editorial does not attempt to prophesy what the attitude of the Institute of Chartered Accountants will be, but says it seems quite likely that the council will "report that it can make no useful positive recommendation."

*The Economist*, a weekly commercial and financial magazine, in its issue of May 18th, makes the following comment on the matter:

"At present, there are, in addition to ten organizations outside the great bodies of chartered and incorporated accountants, a large number of persons practising as accountants whose methods are frequently unprofessional. That the public should be protected against these as it is protected against quack doctors and unqualified lawyers, is eminently desirable. A measure which, while providing the necessary safeguards against undue restriction, would compel practitioners of the profession of accountancy to submit their qualifications to the scrutiny of a competent authority and to conform to recognized standards of professional practice would safeguard alike the public and the great body of responsible and public-spirited accountants."

## **The Accountant as Expert Witness**

Discussion of an accountant's status as expert witness constitutes part of an opinion handed down on December 11, 1928, by the supreme court of Oklahoma in the case of *Bell v. Tackett* (272 P. 461). Besides delivering a ruling on the admissibility as evidence of an audit report prepared by an accountant and on the propriety of the accountant's testimony regarding his examination of certain books and records, the supreme court reaffirmed its earlier decision that the accountancy act of Oklahoma is unconstitutional in so far as it prohibits uncertified accountants from holding themselves out as professional accountants or auditors, for compensation. The excerpt

from the text of the court's opinion which deals with these matters is as follows:

"... For reversal, counsel for plaintiff in error next contend that the trial court erred in admitting the testimony of the defendant's witness, M. E. Wallace, regarding his examination of certain vouchers, cheques and books evidencing expenditures by defendant in the operation and development of the lease in controversy, and in the admission in evidence of the audit prepared by said witness, showing amounts paid by Tackett to Bell on the purchase price, and expenditures made in development and operation of the lease during Tackett's possession, and also showing the credits to which Bell was entitled.

"Counsel objected to this evidence in the trial court, after a showing that the witness was not a certified accountant, under sections 10,922 to 10,928, article 10, chapter 87, C. O. S. 1921. We decline to hold that such evidence of a person otherwise qualified would be incompetent by such failure to comply with said statutory provisions, inasmuch as said sections have heretofore been held unconstitutional by this court in the case of *State ex rel. Short v. Riedell*, 109 Okl. 35, 233 P. 684, 42 A. L. R. 765.

"Such testimony is generally classed as opinion or expert testimony, and its admission is left largely to the discretion of the trial court. In *Phoenix Insurance Co. v. School District No. 132, of Comanche County*, 102 Okl. 251, 228 P. 489, the rule is announced in the first paragraph of the syllabus as follows: 'Whether or not the qualifications of a witness with respect to knowledge or special experience is sufficiently established is a matter resting largely in the discretion of the trial court, whose determination is usually final and will not be disturbed by an appellate court, except in extreme cases, where it is manifest that the trial court has fallen into extreme error, or has abused its discretion, and that prejudice to the complaining party has resulted, even though the appellate court might have decided differently if the question had been presented to it in the first instance.'

"In the instant case it appears that the witness Wallace was a public accountant in the state of Texas, and had been engaged in such profession for a period of 12 years. The trial court, in passing upon said objection, stated that he would permit the witness to testify in order to simplify matters, with the understanding that the defendant, Tackett, should take the stand and identify each cheque and voucher upon which the audit was based, and of which several hundred were subsequently introduced in evidence.

"It is not amiss to call attention to the fact that the record discloses that with few exceptions each cheque covering an expenditure was attached to a voucher prepared by the plaintiff Bell, and those not covered by voucher or invoice were identified by Tackett, who testified as to the nature of the expenditure.

"Where the results of voluminous facts contained in writings, or of the examination of many books and papers or records, are to be proved, and the necessary examination of this documentary evidence can not be conveniently or satisfactorily made in court, it may be made by an expert accountant or other competent person, and the results thereof may

be proved by him, if the books, papers or records themselves are properly in evidence, or their absence satisfactorily explained; the admission of such testimony being a matter resting largely in the discretion of the trial court. 22 C. J. 1,017. The jury, or the court, in the absence of a jury, would not be bound by the results thus ascertained, but might make their own calculations from the evidence. 22 C. J. 1,017.

"It appears that the trial court, in the case at bar, was not controlled by said audit, but by the books, vouchers and cheques in evidence, as the judgment rendered was for only \$26,631.55, while the audit showed the amount due to be \$35,156.58. We must conclude that the trial court did not err in the admission of said evidence. ..."

## Accounting Survey of Fiscal Affairs of Texas

In accordance with an act of the Texas legislature in 1927, at the suggestion of the governor of the state, a fiscal survey committee of two certified public accountants and one lawyer was appointed to make a complete investigation of the systems of accounting and auditing used in all the state departments and institutions and to render a full report on the reforms which apparently were necessary to remedy unsatisfactory conditions. The chairman of the committee was George Armistead, a member of council of the American Institute of Accountants. The other members were S. H. Sanders and Clifton H. Morris. On February 4, 1929, this committee submitted its report to the governor, and on May 3rd the report was reprinted in pamphlet form for general distribution.

The general conclusion of the committee was that the state of Texas was entirely without a uniform or coördinated system of accounting whereby all the fiscal affairs of the state and its various subdivisions might be brought together. There seemed to be no mechanism of government to assure obedience of existing laws, applying to particular vicinities or to certain agencies of the state, relating to auditing and accounting, and the committee implied that such statutes were often ignored. The investigation uncovered instances of erroneous disposition of public funds and methods of recording their expenditure, as well as numerous leaks and inefficiencies which might be expected in the circumstances.

While various institutions in the state were subjected to occasional audits by independent accountants, it was said, their

reports rarely came to the attention of anyone except the political officer who engaged the accountants, and even if such an audit disclosed conditions open to criticism there was no authority to see that faults were corrected.

The committee's report included an exhaustive summary of the present machinery in the state designed to control its finances, and concluded that some agency of unquestionable technical competence should be created to effect greater coordination among the financial and accounting affairs of the different departments. It was also recommended that a department of accounting and auditing be created to make periodical audits of the accounts of all departments and that an effective system of budgetary control be established.

The committee also suggested inauguration of an appointive office of "auditor of state," whose duties would be those of chief accounting officer. He would take over all the duties, at present incumbent on the comptroller, which relate to accounting and auditing. The office of auditor of state would be removed as far as possible from all political influence.

At the 1929 session of the legislature a bill was passed by the house providing for the creation of the office of state auditor and his necessary assistants, this officer to be appointed by a majority vote of three persons, the governor, lieutenant-governor and speaker of the house. In this original draft, the person to be appointed was not required to be a certified public accountant. When the measure reached the senate it was amended to provide that the auditor shall be a certified public accountant with not less than five years' experience and that the appointment shall be made in the manner of other executive appointments, by the governor with the advice and consent of the senate. The house concurred in the amendments, and the bill has been signed by the governor and is now law. The auditor will have the duty of examining the various departments, institutions and financial activities of the state and will be required to report his findings biennially to the governor and the legislature, including reports upon efficiency of personnel and suggestions for general improvement of the state financial system.

## Concealed Assets

The practice of overvaluing assets in corporation balance-sheets receives editorial consideration in *The Journal of Commerce*, New York, for May 20th. Mention is made of the argument that such a policy facilitates concealment of assets and earnings and thereby adds fresh stimulus to speculative dealings in corporation shares, since outsiders, knowing that conditions are better than financial statements indicate, are prone to exaggerate the unknown quantities. The editorial says, in part:

"Although unfounded hopes based on ignorance of facts may be partly responsible for the 'bulling' of security values beyond the point that would be justified by revealed earnings, the average speculator is probably not as much interested in trying to determine the amount of corporate earnings as he is in the disposition of corporate surpluses. Whether excess earnings are revealed or concealed by accounting methods, the existence of large reserves enables rumor to become busy with many important questions, such as whether a merger is likely or whether a competing establishment will be acquired, etc. Obscure financial statements doubtless add somewhat to the hazards of the guessing game, but the game is pursued quite freely even when accounting is standardized and presents a reasonably truthful picture of the financial status of a company. The speculation in certain railroad stocks that has resulted from consolidation rumors offers an illustration in proof.

"Irrespective, however, of the incentives to speculation that concealment of assets may bring, there is no doubt that the stockholder should be placed in the possession of the facts so far as a financial statement is capable of revealing them. There are cases in which investors have been deprived for years of dividends earned and available for distribution by managements primarily interested in encouraging a policy of expansion. Whether or not such withholding of profits earned is justifiable, judged from the long-time point of view, is a matter of opinion. The stockholder is at any rate entitled to know the facts and to do his part in shaping the policies actually pursued.

"Truth in accounting with the best of intentions can never be more than approximate. For instance, the sharp battle of opinion that is perpetually waged concerning the proper bases of capital valuation for purposes of ascertaining earnings is the result of genuine perplexity. There are also many items in a balance-sheet whose present value is only a reflection of the earnings that flow from them. To enter such assets at original cost or at any substantial figure, especially if they have no resale value, would falsify instead of clarify the accounting picture. The chief desideratum is to place before the public financial statements that honestly try to give an undistorted view of present and prospective earning capacity. If the methods employed in valuing assets and computing earnings are frankly revealed, the investor is protected against a diversion of dividends that he disapproves, while the specula-



tor has no excuse for gambling on the probabilities of hidden resources."

### **Opportunities in Accountancy**

In an address before students at the University of Mississippi on May 20th, W. Q. Sharp, a member of council of the American Institute of Accountants, outlined the opportunities in the profession of accountancy. He stressed the peculiar necessity for strength of character, unselfishness and willingness to assume responsibility in the practice of public accounting. He also showed the advantage of literary culture in aspirants for professional recognition. The accountant's part in strengthening faith and confidence in credit relationships and his function in flotation of new security issues received the attention of the speaker. He warned his audience that the long and strenuous period of training necessary for the development of accounting technique required patience and pertinacity but indicated that in his own opinion the goal was worth the effort. In conclusion, Mr. Sharp explained the plan of the bureau for placements of the American Institute of Accountants, which attempts to help college graduates to obtain positions as junior staff assistants in public accounting firms.

On April 26th Ernest Crowther, of Pittsburgh, addressed the students of Bucknell University, Lewistown, Pennsylvania, on "The opportunities in accountancy." Mr. Crowther's talk was made on behalf of the bureau for placements of the American Institute of Accountants.

### **Accountant's Responsibility for Inventories**

In an address before a meeting of the San Francisco chapter of the California State Society of Certified Public Accountants on May 17th, at which several California bankers were in attendance, George R. Keast quoted the following opinion on the subject of the accountant's responsibility for the verification of inventories, which had been obtained from a prominent banker:

"With reference to your inquiry, I believe the verification of inventories by accountancy firms undertaking audit work to be absolutely essential, and that the responsibility of the accountancy firm is thus established, and it is not to be excused where a balance-sheet is qualified upon the certi-

ficate of the client as to the correctness of the inventories, and accepted by the accountancy firm without due and proper verification, and that the entire audit might just as well be forgone with the inventory verification omitted. We have always felt that accountancy firms engaged in undertaking the audit work of our clients should verify the inventories and accept full responsibility therefor by setting forth in the balance-sheet submitted a classification of the merchandise stock together with a report upon the condition of all inventories.

"Naturally it is to be admitted that the accountancy firm does not furnish technical experts in the valuation of merchandise stocks, and in some instances must rely upon the knowledge and ability of the client or his personnel to do so.

"With this exception as to the condition of valuation, we believe that accountancy firms should accept full and unreserved responsibility for the verification of all the items reflected by their statements and particularly with reference to the verification of inventories."

He also read the following extract from a letter from a president of a department store:

"As our auditors and business advisors your responsibility in verifying the accuracy of our inventory should constitute a major portion of your work, not only supervising the taking and verifying the figuring, but also whether the merchandise is marketable at the prices shown thereon, how long it has been in the establishment and whether or not it is shop-worn or out of style.

"This you should endeavor to determine as far as you can with your experience and the method used by stores in marking merchandise.

"The inventory constitutes a large part of our current assets and in my opinion it should be kept in a liquid condition."

Mr. Keast mentioned the various opinions on the subject which had been offered at recent meetings of accountants and he drew attention to the pronouncements of the American Institute of Accountants on the question as reflected in the documents published by the federal reserve board under the titles "Uniform accounting," "Approved methods for the preparation of balance-sheet statements," and "Verification of financial statements." The speaker said that the reliability of inventory verification, by whatever means it is accomplished, rests finally upon the intelligence and conscientiousness of the individual. In some cases, he continued, the assistance of technical experts will undoubtedly be necessary. He suggested that one reason why accountants had sometimes not assumed responsibility for inventory accuracy in the past was the aversion of many clients to pay the fees that the work of verification entails.

### **Membership of New York Hotel Accountants Association**

A list of members of the Hotel Accountants Association of the city of New York issued June 1, 1929, shows that the present membership is 70. Twenty of the members are public accountants and there are 2 honorary members. The remaining members are accountants in the employ of hotels.

### **Cost Accounting Research by Trade Associations**

A recent publication of the Chamber of Commerce of the United States announces several publications by different trade associations on the subject of cost accounting. The productions mentioned are as follows: cost bulletin of the National Tent and Awning Manufacturers Association in conjunction with the National Laboratory on Cost Investigation; cost-accounting manual of the Knitted Outerwear Industry; a series of pamphlets based on a cost survey of the American Bottlers of Carbonated Beverages; manual on cost accounting for broad silk manufacturers, issued by the Silk Association of America.

Mention is also made of an installation of

the standard cost-finding system of the International Association of Electrotypers and the authorization of a cost-accounting department by the National Association of Dyers and Cleaners.

### **Annual Cost Conference, National Association of Cost Accountants**

The tenth anniversary of the formation of the National Association of Cost Accountants will be celebrated at the tenth international cost conference at West Baden Springs, Indiana, June 17th to 20th.

The technical sessions are divided into six parts under the general direction of J. P. Jordan, past president of the association. The general theme of all discussions will be "Organizing a business for profit." Individual sessions will be devoted to the following subjects: setting up an organization; setting up records to fit the manufacturing organization; setting up the records to fit the sales and general organization; setting the standards; incentives—executive and key men. Individual sessions are under the direction of H. G. Crockett, Eric A. Camman, Philip J. Warner, Myron J. Hayes and Arthur H. Carter.

## **STATE LEGISLATION**

Most of the state legislatures have adjourned for the year. Florida, Oklahoma and Texas are in special session and Illinois, New Jersey and Wisconsin have not yet adjourned.

Bills of vital interest to accountants are pending in Florida and Illinois, where attempts have been made to destroy the C. P. A. laws. Summaries of the bills concerned are given in the following paragraphs.

### **Connecticut**

Following is the text of a bill relating to municipal auditors' reports which was approved by the governor of Connecticut June 1st:

#### **AN ACT CONCERNING MUNICIPAL AUDITS**

Be it enacted by the senate and house of representatives in general assembly convened:

SECTION 1. Any public accountant or certified public accountant who shall perform an audit or an investigation for any municipality shall render to the tax commissioner a certified copy of the report

resulting from such audit or investigation at the same time that he shall render his report thereof to such municipality.

SEC. 2. Any person who shall fail to comply with the provision of section 1 hereof shall forfeit to the state one-half of the fee received for performing such municipal audit or investigation.

SEC. 3. This act shall take effect from its passage.

### **Florida**

In Florida, senate bill No. 135, which would repeal the accountancy law of the state, was reported unfavorably.

Four other bills to supplant the C. P. A. law died on the calendar.

Senate bill No. 534, which would insert a waiver clause into the existing law, providing for issuance of C. P. A. certificates to all accountants who had been in public practice for five years prior to June 30, 1929, is still under consideration by the committee on judiciary.

House bill No. 641 to permit engagement of public accountants by county commis-

sioners, passed both houses of the legislature and was approved by the governor on May 23rd.

The text of the new law is as follows:

AN ACT TO AUTHORIZE AND EMPOWER THE BOARD OF COUNTY COMMISSIONERS OF CERTAIN COUNTIES TO EMPLOY A REGISTERED ACCOUNTANT AND PRESCRIBING THE POWERS AND DUTIES OF SUCH ACCOUNTANT AND PRESCRIBING THE DUTIES OF ALL COUNTY OFFICERS, BOARDS OR OTHERS HANDLING PUBLIC FUNDS WITH RESPECT TO SUCH ACCOUNTANT.

Be it enacted by the legislature of the state of Florida:

SECTION 1. That in all counties of the state of Florida having a population according to the last state or federal census of more than twenty-eight thousand (28,000) people, and not more than forty thousand (40,000) people and which shall also have an assessed valuation of property therein of more than fifteen million (\$15,000,000.00) dollars and not more than thirty million (\$30,000,000.00) dollars according to the last preceding tax roll, the board of county commissioners of each of such counties shall be authorized and empowered to employ (from time to time or continuously as in the judgment of the board of county commissioners, the best interests of the county require) a registered accountant who shall hold a certificate of registration from the state board of accountancy, either as a public accountant or as a certified public accountant. Such accountant shall keep such books and records and prepare such reports and statements and compile such statistics and information concerning the administration of the county government, as may be from time to time required by the board of county commissioners. The board of county commissioners shall fix the compensation to be paid to such accountant and pay the same out of the general revenue fund of the county, and shall also provide an office in the court house for the use of such accountant, and shall purchase and pay for such stationery, office equipment, records and supplies as may be required. All of the files, books and records of such accountant shall be the property of the county, and be under the supervision and control of the board of county commissioners. The term of employment of such accountant shall be fixed by the board of county commissioners but the same shall not extend for a longer period than the term of the commissioners comprising the board of county commissioners—and in no event for a period longer than two (2) years.

SEC. 2. When the board of county commissioners of a county have employed an accountant as provided in section one (1) of this act it shall be the duty of the clerk of the circuit court, sheriff, county judge, county tax collector, county tax assessor, any justice of the peace in the county, clerk of the criminal court of record, clerk of the county court and any other official of the county who may handle the collection or disbursement of any public funds, including trustees of bonds of any special road and bridge districts, or of the county, also any board of commissioners or supervisors or trustees of any inlet districts, or drainage districts in the county and any official or board who collects fees from the public, to give full access to said accountant to all of the books and records of their respective offices

for the purpose of obtaining information therefrom and it shall also be the duty of any such official or board to furnish such accountant full financial reports and statements in the form to be prescribed by the board of county commissioners, and as often as the county commissioners may require, not exceeding, however, one report in each month.

SEC. 3. The failure of any official or board as mentioned in section number two (2) of this act to furnish to such accountant such reports as may be required by the board of county commissioners or any refusal of such officer or board to allow full access to all of the books and records of such official or board to such accountant at any reasonable time and upon any reasonable demand of such accountant or the board of county commissioners, shall be considered as ground for the removal of such officer or such board from the office or public position held by them and such removal shall be made by the governor or in such manner as the law may otherwise provide for the same.

SEC. 4. This act shall take effect immediately upon its becoming a law.

House bill No. 169, providing for a system of budgeting, accounting and auditing for county school boards, was reported favorably in the house May 9th. The same bill, introduced in the senate under the number 112, with slight amendment, passed the senate May 25th, and has since been reported favorably in the house.

### Hawaii

Following is the text of an act, approved April 30, 1929, which amends the accountancy law of Hawaii by providing for issuance of reciprocal C. P. A. certificates to accredited accountants:

AN ACT AMENDING SECTION 3677 OF THE REVISED LAWS OF HAWAII, 1925, RELATING TO AUTHORIZING THE BOARD OF ACCOUNTANCY TO WAIVE EXAMINATIONS IN CERTAIN CASES.

Be it enacted by the legislature of the territory of Hawaii:

SECTION 1. Section 3677 of the revised laws of Hawaii, 1925, is hereby amended to read as follows:

"Sec. 3677. The board shall, upon application in writing, waive the examination of and issue a certificate to any person of good moral character over the age of twenty-one years, who, at the time of filing application for said certificate, is a citizen of the United States, or who, in good faith, has declared his intention of becoming a citizen, and who has resided within the territory of Hawaii for at least twelve months next preceding said application, and who has the degree of certified public accountant or chartered accountant evidenced by a certificate issued by or under the authority of another territory or state or foreign nation; provided, that such certificate was issued with the approval of the state board of accountancy or examiners of the territory or state or foreign nation issuing same; and, provided, further, that the standards prescribed by law or by the rules of the board and the

examinations conducted are fully equivalent to the standards maintained in this territory. If, for any reason, the certificate of original issue be revoked or canceled, the board of accountancy of the territory of Hawaii shall forthwith revoke and cancel the certificate issued to such person in accordance with this act."

SEC. 2. This act shall take effect upon its approval.

## STATE BOARDS OF ACCOUNTANCY

### Alabama

William J. Christian has been appointed by the governor of Alabama as a member of the Alabama state board of accountancy. He succeeds M. W. Aldridge, whose term of office had expired. Mr. Aldridge had been a member of the board since its creation.

### Connecticut

The state board of accountancy of Connecticut held certified public accountant examinations at Hartford, Wednesday and Thursday, May 15th and 16th. There were 24 candidates.

### Georgia

Certified public accountant examinations of Georgia were held May 23rd and 24th in Atlanta.

### Indiana

Thirty-six candidates took the Indiana certified public accountant examinations held May 16th and 17th, at the State House, Indianapolis.

### Louisiana

Thirty-two candidates for certified public accountant certificates sat for the examinations held by the Louisiana board of accountancy, May 16th and 17th.

### Michigan

Announcement has been made of the appointment of Frederick W. Morton as a member of the Michigan state board of

### Illinois

The bill introduced in Illinois to repeal the C. P. A. law was killed June 3rd. Senate bill 461, which would waive examination of state-employed accountants passed the senate May 9th and was reported favorably in the house May 31st.

accountancy. He succeeds Adolph W. Ehrman, whose term has expired.

Forty candidates for C. P. A. certificates of the state of Michigan sat for examinations conducted by the state board of accountancy in May. The examinations were concluded May 24th.

### Ohio

At a recent meeting of the Ohio state board of accountancy, Martin J. Arft was elected president of the board to succeed Edward S. Thomas, who had filled the position for fifteen years and whose term of membership had expired. Sidney J. Collins has been appointed a member of the board to fill the vacancy created by the recent death of Roy T. Bell.

### South Carolina

Seventeen candidates presented themselves for examination before the board of accountancy of South Carolina, May 16th and 17th. For the first time in the history of the board a woman was a candidate.

### Texas

Following are the names of newly elected members of the board of accountancy of Texas: W. D. Prince, chairman, F. L. Wilcox, secretary, F. G. Rodgers, Y. D. Harrison and C. M. Grider.

### Washington

Fourteen men and one woman sat for the certified public accountant examinations conducted by the Washington state board of accountancy May 16th and 17th.

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W. Paxton Little, vice-president and treasurer of the Niagara Falls Power Company, has removed his office from Niagara Falls to room 701, Electric building, Buffalo,

New York, as announced in the May *Bulletin*. Mr. Little has not entered public practice, as the previous announcement led some readers to believe.

## NEWS OF LOCAL SOCIETIES

### **Joint Meeting of Accountants at Lexington**

Accountants from Kentucky, Illinois, Indiana, Ohio, Tennessee, Virginia and West Virginia met at Lexington, Kentucky, May 29th, as guests of the Kentucky Society of Certified Public Accountants. The visitors were tendered a luncheon at the Ashland golf club, at which S. W. Eskew, president of the society, was toastmaster.

Edward Wiest, dean of the college of commerce of the University of Kentucky, welcomed the visitors.

Qualifying rounds of a golf tournament were played in the afternoon and those who did not play were conducted on sightseeing trips. An evening session was held at the Phoenix hotel.

On May 30th ladies accompanying the visitors were guests of the Kentucky society at a luncheon at the Shakertown Inn, and afterward made a trip to nearby points of interest. A banquet which was served in the evening was followed by a dance.

### **Annual Meeting, California Society of Certified Public Accountants**

At the annual meeting of the California State Society of Certified Public Accountants held on June 3, 1929, the following officers were elected for the ensuing year: president, I. G. Pattinson; first vice-president, H. J. Cooper; second vice-president, Henry M. Thomson; secretary-treasurer, B. W. Bours. The following were elected as directors: B. W. Bours, H. J. Cooper, John F. Forbes, J. E. Hammond and Henry M. Thomson.

A golf tournament was held at the Presidio golf course on the afternoon of June 3rd. George R. Keast was in charge of arrangements for the tournament. Trophies were presented to the winners.

#### **LOS ANGELES CHAPTER**

The annual meeting of the Los Angeles chapter of the California State Society of Certified Public Accountants was held May 13, 1929, at the Masonic club. Re-

ports of the past year's activities were presented by various committee chairmen, and officers were elected for the ensuing year as follows: president, Henry M. Thomson; vice-president, Walter K. Mitchell; secretary-treasurer, Joseph Garrett; directors, Harry Mills and Walter Gibson.

The retiring president, I. G. Pattinson, reviewed in his report the progress of the society during the year. Among the notable meetings was one at which David H. Blair, commissioner of internal revenue, was entertained. One hundred and fifty accountants and lawyers of the state were present at this meeting. Perhaps the outstanding activity of the year, according to the president, was the work of a committee of the chapter, in conjunction with a similar committee of the San Francisco chapter, which coöperated with the California State Bankers Association in an attempt to formulate principles governing the preparation of financial statements which would be satisfactory to accountants, bankers and clients.

Another committee of the chapter worked in conjunction with the California State Bar Association in a revision of the state corporation laws.

The president said that the selection of one of the chapter members, Reynold E. Blight, as state franchise-tax commissioner was exceedingly gratifying to the chapter.

### **Connecticut Society of Certified Public Accountants**

The annual meeting of the Connecticut Society of Certified Public Accountants was held at the Hotel Bond, Hartford, on Friday, May 24th. The meeting was preceded by a dinner.

Officers elected for the ensuing fiscal year are as follows: Henry Knust, president; Warren M. Brown, vice-president; Lewis Sagal, secretary; Walter A. Musgrave, treasurer, and John S. Roth, auditor. Vacancies on the board of governors were filled by the election of Charles F. Coates and Seth Hadfield for terms of three years.

It was decided that the annual summer outing of the society will be held at the Pease house, Saybrook, Connecticut, on or about June 24th.

### **Indiana Association of Certified Public Accountants**

At the annual meeting of the Indiana Association of Certified Public Accountants, May 11th, the following members were elected directors for the term ending May 6, 1931; Harry Boggs, S. S. Yeoman, E. E. Thomas, H. A. Roney. At the same time T. S. Thurston was elected auditor.

Following the meeting the board of directors elected the following officers: president, F. S. Willet; vice-president, J. C. Olive; treasurer, A. R. Chapman; secretary, Harry Boggs.

Paul Stokes, statistician of the National Retail Hardware Dealers Association, spoke on "The business outlook." George E. Morgan, past president of the Indiana association, rendered a report on the activities of a commission, of which he was a member, formed at the request of the secretary of state to draft a new corporation law. Other members of the commission were attorneys, teachers and members of the state legislature. The bill in question was passed at the 1929 session of the legislature.

### **Maryland Association of Certified Public Accountants**

A regular meeting of the Maryland Association of Certified Public Accountants was held at the Hotel Emerson, Baltimore, May 14th. Following dinner Raymond Hutson read a paper on "The practical aspects of trust company audits."

The spring handicap golf tournament of the Maryland Association was held May 28th at the Rodgers Forge golf course. Richard F. Going was the winner of the tournament and he received a silver cup donated by C. C. Croggon, former president of the association.

Several months ago the Maryland Association resolved to make a survey of commercial arbitration in Maryland. A committee was appointed to conduct the proposed investigation and announcement has been made that a final report will doubtless be rendered in the near future. The cost of the survey is being defrayed by private contributions from members. The committee in charge of the work consists of Elmer L. Hatter, chairman, Wilmer Black, C. C. Croggon, A. L. Miles and G. Harvey Porter.

### **Massachusetts Society of Certified Public Accountants**

At the annual meeting of the Massachusetts Society of Certified Public Accountants, held May 27th at the Boston yacht club, the following officers were elected for the ensuing year: president, James Willing; vice-president, J. Chester Crandell; secretary, Clifton W. Gregg; treasurer, Arthur T. Chase; auditor, Herbert E. Tucker. Percival F. Brundage, Walter L. Boyden and S. L. G. Sutherland were elected members of the executive committee. The meeting was preceded by the annual banquet. The committee in charge of arrangements was as follows: Schuyler Dillon, chairman, Albert E. Hunter, Ralph F. Perkins, Walter G. Giddings and John F. Clarke.

### **Missouri Society of Certified Public Accountants**

#### **KANSAS CITY CHAPTER**

The following officers were elected for the year 1929-30 at the annual meeting of the Kansas City chapter of the Missouri Society of Certified Public Accountants, May 6th: president, P. H. Kerr; first vice-president, C. W. House; second vice-president, F. R. Brodie; treasurer, George E. Dell; secretary, R. W. Smith.

An address on "Refinancing statements" was delivered by Miller Bailey and was followed by general discussion.

### **Society of Certified Public Accountants of the State of New Jersey**

The Society of Certified Public Accountants of the State of New Jersey met at the Elks club, Newark, May 14th, and elected the following officers for the coming year: president, William C. Heaton; first vice-president, Henry B. Fernald; second vice-president, Phillip S. Suffern; secretary, Julius E. Flink; and treasurer, Morris J. Hoenig. The following trustees were elected for a term of two years: Keith Lanneau Baker, Theodore Krohn and Lewis M. Norton; and for a term of one year, Andrew M. Hauser. Samuel J. Wortzel and Robert Caruba were elected auditors.

Maurice E. Peloubet, retiring president, reviewed the events of his administration.

The secretary announced a donation of \$250 by Mr. Peloubet to the education fund.

Giles L. Courtney made an announcement of the international congress on accounting to be held in New York during September.

The principal speaker of the evening was the Hon. William Clark, judge of the United States district court of New Jersey, who spoke on the federal courts and the deficiencies of current bankruptcy practice in them. He blamed some of the existing inefficiency on the fact that there are too many federal judges, as well as referees and commissioners. Judge Clark advocated a smaller number of judges with a corresponding increase in their salaries.

Most cases, he said, are on the calendar because of attorney's delays. Tardy decisions are entirely unnecessary and the blame rests almost solely on the judges, according to Judge Clark. Criticism of juries he believed to be without merit. The only improvement necessary is greater care in their selection.

Judge Clark believed that criticism of the bar may be overcome by substituting for the present method of admission appearance before a character committee, a system which would permit the admission of candidates to the bar temporarily on probation. Admission would be confirmed at a public hearing open to objectors, if any, against the admission of the candidate.

Judge Clark stated that he has been helped considerably in bankruptcy cases by the society of certified public accountants, members of which have sat with him at hearings for discharge of bankrupts. The assistance of public accountants, said Judge Clark, has accomplished much in a very short time. Failure to keep books is practically the only real non-criminal ground for denial of a discharge irrespective of other circumstances.

The New Jersey society has been asked by Judge Clark to formulate instructions for the keeping of necessary books of account, and these instructions probably will be embodied in court rules.

### **New York State Society of Certified Public Accountants**

At the annual meeting of the New York State Society of Certified Public Accountants, May 13th, the following officers were elected for the ensuing year: president, Patrick W. R. Glover; first vice-president,

James F. Farrell; second vice-president, William H. Bell; secretary, Martin Kortjohn; treasurer, Hamilton Howard. The following were elected directors for a term of two years: Paul E. Bacas, Samuel J. Broad, Walter N. Dean, Emanuel Engel, Winfield McKeon and Morris C. Troper.

### **Annual Accounting Conference in Ohio**

The annual Ohio accounting conference was held at Ohio State University, May 17 and 18, 1929. The meeting was sponsored by the department of commerce extension of the university, in coöperation with the Ohio Society of Certified Public Accountants, Columbus chapter of the National Association of Cost Accountants and other colleges and universities in Ohio. Most of the sessions of the conference were held in the commerce building of the university.

At a luncheon for accounting instructors at the faculty club of Ohio State University, A. D. Henderson of Antioch College spoke on "Keeping accounting instruction up-to-date." The paper was followed by discussion. R. Emmett Taylor of the University of Cincinnati presided at the meeting.

On the afternoon of the same day a special programme for students was arranged in the commerce auditorium. Jacob B. Taylor of Ohio State University was chairman. John E. Madden of Toledo delivered an address on the field of public accounting. H. J. Patterson, treasurer of the Columbus Show Case Company, spoke on the field of industrial accounting. Informal discussion followed.

A dinner at the Fort Hayes hotel was arranged in the evening for members of the Ohio Society of Certified Public Accountants and the Columbus chapter of the National Association of Cost Accountants. J. B. Heckert was chairman. "Analyzing a business" was the subject of an address by Albert Torbet, and Harry W. Weible, secretary and treasurer of the Diebold Safe and Lock Company, spoke on selling and distribution costs.

The Ohio Society of Certified Public Accountants held a business meeting on the morning of May 18th. Reports of officers showed that the society was in excellent financial condition and that its membership was growing satisfactorily. Great interest

was aroused by a report presented by F. J. Nichols on the result of a questionnaire distributed among members of the society with reference to financial affairs of public accounting firms—fees, salaries, indirect time, overhead, etc.

At a luncheon at the faculty club, Robert A. Hurst, president of the Ohio Society of Certified Public Accountants, delivered the principal address.

The annual meeting of the society will be held in October at Cincinnati.

### **Oregon State Society of Certified Public Accountants**

A meeting of the Oregon State Society of Certified Public Accountants was held May 15th at the Elks Temple, Portland. Otto Kubin discussed three tax laws passed at the past session of the legislature and Frank Hecox read a paper on "Phases of budgetary control."

### **Pennsylvania Institute of Certified Public Accountants**

At the annual meeting of the Pennsylvania Institute of Certified Public Accountants held at Galen Hall, Wernersville, Pennsylvania, June 10, 11 and 12, 1929, the following officers were elected for the ensuing year: president, Otto G. Richter; vice-president, Robert B. Vollum; treasurer, Harry Ness; secretary, R. J. Bennett; auditor, Ralph C. Stine. The following members of council were also elected: Gardner W. Kimball, Frank W. Main and Ernest Crowther. The membership of the committee on professional ethics for the current year is as follows: chairman, Will-A. Clader, William R. Main, William Frank Marsh, Frank A. Willison and Michael H. Sigafos.

An amendment to the by-laws was adopted providing that each chapter shall elect a vice-chairman, who shall be one of the chapter's four ex-officio members of the executive committee of the institute. The by-laws formerly provided only for election of chairman, secretary and treasurer for each of the local chapters.

The programme of entertainment at the meeting included a bridge tournament, sightseeing trips for ladies, golf and tennis tournaments, quoits, pool and billiards and a banquet and dance.

Clarence L. Turner was chairman of the general committee. The committees on attendance and publicity for eastern, central and western Pennsylvania were headed by Edward P. Moxey, Harry Ness and James M. Cumming, respectively. Peter S. Barton, was chairman of the committee on arrangements for golf, Adrian F. Sanderbeck for tennis and William F. Marsh for bridge. The arrangements for dancing were undertaken by a committee of which John H. Zebley acted as chairman. Mrs. Gardner W. Kimball headed the ladies' reception committee.

### **HARRISBURG CHAPTER FORMED**

On May 17th a meeting of accountants was held at the Harrisburg club, Harrisburg, Pennsylvania, to form a local chapter of the Pennsylvania Institute of Certified Public Accountants. Temporary officers were elected as follows: chairman, Roy F. Godfrey; secretary, Harry Ness, and treasurer, Charles E. Procasco. There were 22 accountants present at the meeting.

### **Annual Meeting, Virginia Society of Public Accountants**

The annual meeting of the Virginia Society of Public Accountants was held at Virginia Beach on May 17th and 18th. The meeting included two business sessions, a banquet and a programme of entertainment, which consisted of sightseeing trips to Cape Henry and Fort Story, a dance, a golf tournament and aquatic sports in the pool of the Cavalier hotel. Speakers were Frederick H. Hurdman, president of the American Institute of Accountants, A. P. Richardson, secretary of the Institute, Homer A. Dunn, D. W. Springer, B. D. White, circuit judge, and Joseph K. Meyer.

### **Washington Society of Certified Public Accountants**

The following officers were elected by the Washington Society of Certified Public Accountants at its meeting at Seattle, May 10th; president, George V. Whittle; vice-president, Paul R. Strout; secretary-treasurer, Lawrence Giles; auditor, Wesley D. Rodbury. Clarence L. Stone and Eugene J. Calloway continue as members of the board of directors for the ensuing year. A new directory published by the society shows that the membership is 97.



H. G. CROCKETT—"PLAN YOUR WORK  
AND WORK YOUR PLAN"

Address delivered at the semi-annual meeting of the Cost Association of the Paper Industry, New York, February 20, 1929. Published in *Pulp and Paper Profits*, March, 1929.

Despite the wide-spread knowledge of standard costs, sales quotas and budgetary control, many companies are unwarranted in assuming that they are operating on a scientific basis, Mr. Crockett said. Close investigation often brings out the fact that a company is not using genuine standard costs, that it is not controlling production so much as it is recording the progress of production and that its sales quotas are chiefly a hope that it will have more business than in the previous year. Budgeting is often little more than construction of an expense budget with the hope that general conditions will permit it to be followed.

Small concerns which are apt to avoid budgets as a luxury permissible only to large corporations are entirely mistaken, according to the speaker. Regardless of the size of a business, no manufacturer can be sure of operating most efficiently unless he plans his activities ahead and then sees that the plan is carried out.

Standard costs must not only be determined but must be tied in with the books in order that they may be checked effectively. It is necessary that executives know how nearly actual costs approach the standards.

The purpose of a production-control plan is to keep all inventories at the proper level, to schedule work to meet sales requirements, to keep all departments working as steadily as possible and generally to anticipate conditions and needs. Unless there is an effective check on accounts, inventories, orders received and production, as compared with the estimates, results will not be satisfactory. The construction of a sales quota is apt to present great difficulties, Mr. Crockett said, and the problem is closely related to that of budgetary control. A budget for a year must be broken into small periods of time. All items of income, cost and expense and, therefore, profit and loss, must be budgeted not only for the year but for each of the twelve months. Sales and manufacturing programmes must be harmonized. With a reasonable amount of study the capacity of the plant can be determined. An analysis of the sales for the past period will provide volume and tonnage by months of the various products sold. A knowledge of inventory during the same period is particularly important in a seasonal business. All possible information concerning market possibilities of the product concerned in the various territories available should be accumulated.

Having set up quantities of the various products

which it is expected can be sold and the month in which shipment should be made, it is fairly simple to translate the requirements into a manufacturing programme that will keep the various departments operating at a steady rate and to adjust the inventories accordingly.

Mr. Crockett referred to the seriousness of shut-downs of plants in the paper industry and he said that budgets and sales quotas in so far as they facilitate continued operations at a steady rate will do much to obviate this problem. Businesses which have seasonal variations in sales require particularly careful schedules planned in advance if they are to operate profitably.

Budgets can be planned to cover the entire range within which sales may be expected to fall and the budget items may be adjusted later in accordance with the tendency of sales. Mr. Crockett stressed the necessity of having an entire organization support the budget, because departures from its provisions are injurious to the company morale and are apt to result in eventual abandonment of the plan. In closing, he said that the budget is the only proper basis for incentive to salesmen or executives.

LEWIS WINTERMUTE—"IT PAYS TO BE  
REASONABLE"

Article published in *The Cleveland*, April, 1929.

Mr. Wintermute's article is a plea for the correction of weaknesses in the arbitration law enacted in Ohio. He mentions that the courts of the state have held that any agreement to arbitrate controversies must be made after the controversy has arisen, a procedure difficult in practice. Mr. Wintermute expresses approval of the provision in an amendatory bill before the legislature to the effect that when an arbitration clause has been written into a contract it shall be valid, irrevocable and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract. A great advantage of the amendatory bill, according to the writer, is its provision that after an agreement to arbitrate has been accepted it must be pursued to a final conclusion. Neither disputant may withdraw from the proceedings after they have been commenced.

The writer says that in twelve additional states bills similar to the one before the Ohio legislature were introduced during the 1929 sessions. He cites President Hoover's approval of the arbitration principle and says that replies to questionnaires on the subject circulated by the Cleveland chamber of commerce prove conclusively that there is demand for an effective arbitration law in Ohio. He refutes the occasional misapprehension that commercial arbitration would deprive lawyers of practice and he shows the great advantages of arbitration over litigation from the point of view of the disputants.

L. G. Battelle, Dayton, Ohio, spoke on "Uniform accounting for the tool and die industry" at a meeting of the tool executives of the National Die and Special Tool

Builders Association in Chicago, May 16th. On April 3rd, Mr. Battelle addressed the students of the Miami-Jacobs Business College in Dayton on "The executive."

## OBITUARY

### Charles H. Schnepfe, jr.

Charles H. Schnepfe, jr., a member of the American Institute of Accountants and a certified public accountant of Maryland, died at his home at Baltimore, Maryland, on May 16th.

Mr. Schnepfe was a charter member of the American Institute of Accountants and

also a member of the American Association of Public Accountants, the Institute's predecessor. He had taught accountancy at Johns Hopkins University and at the Baltimore branch of Pace Institute. At the time of his death he was a member of the firm of Pace, Gore & McLaren and president of the European Investment Corporation.

## EMPLOYMENT EXCHANGE

A member of the American Institute of Accountants who was registered with the employment exchange answered an advertisement in a newspaper which he discovered had been inserted by a firm whose partners were also members of the Institute. The firm, by paying the cost of running the advertisement, had discovered a man who might have been referred to it immediately at a word to the Institute offices. Members are urged to communicate with the exchange when they are in need of experienced staff assistants of any type. There is no charge for the service.

Many firms are coöperating with the exchange by referring to it applicants whom they themselves are unable to engage. Assistants of high quality are sometimes registered in this way.

Following is a list of applicants who are among those now available:

- No. 51A—Member, American Institute of Accountants, 24 years' experience in public accounting. Has been branch office manager and principal of large firm. Age 45. Salary open. At present resides in New England. Will go anywhere.
- No. 53A—Member, American Institute of Accountants, C. P. A. (Mass. and N. C.), 20 years' public accounting experience. Has held position as branch manager. Age 51. Salary open. Now in North Carolina, prefers Boston, but would go anywhere.
- No. 39A—Member, American Institute of Accountants, seeking executive position in public accounting firm or in private concern near New York. C. P. A. (N. Y., N. J. and Pa.), 20 years' public accounting experience. Salary \$5,000.
- No. 46A—Member, American Institute of Accountants. More than 15 years' public accounting experience. Has come to New York from Kentucky and wishes position in New York. C. P. A. (Ky.) and member Kentucky Bar. Age 41. Salary open.
- No. 57A—Senior accountant, member, American Institute of Accountants. Eight years' public

accounting practice with large firms. Age 39. Wishes position anywhere. Salary open. Now in New York.

- No. 56A—Associate, American Institute of Accountants. C. P. A. (Ill. and O.). 15 years' experience in public accounting with large firms and on own account. At present in Florida. Prefers position in Cleveland but will go anywhere. Age 46. Salary about \$6,000.
- No. 60A—Associate, American Institute of Accountants. C. P. A. (Pa.), 37 years old, 8 years' public accounting experience. Prefers position in upper New York state or in city of New York, but will consider offer anywhere. Salary open.
- No. 23A—Senior accountant, age 37, now in Florida, wishes position in another state. 6 years' public accounting experience. Salary about \$250.
- No. 45A—Senior accountant, now in Florida, wishes position in any other part of the country. Age 40. 20 years' accounting experience. Salary \$250-\$300.
- No. 58A—Senior accountant, 25 years old, C. P. A. (D. C.), 5 years' public accounting practice. Wishes position anywhere. Salary \$4,000. At present in Washington, D. C.
- No. 61A—Senior accountant, 31 years of age. C. P. A. (N. Y.) with 6 years' public practice. Now in New York. No objection to travel. Salary \$3,600.
- No. 62A—Senior, now in Missouri, wishes position in southern California. Age 28, 3½ years' public practice. College graduate. Salary open.
- No. 63A—Accountant, 44 years of age, with 14 years' practice on own account, is moving from Oklahoma to New York in July or August. Wishes staff position in New York. Will accept any reasonable offer.
- No. 64A—Senior accountant, age 42, with 16 years' experience with well known firms, wishes position in New York. Salary \$75.
- No. 54A—Semi-senior, 30 years of age, now in Florida, wishes position in New Haven or New York. 6½ years' public practice.
- No. 55A—Semi-senior with 14 months' experience in New York. College graduate. Salary \$30-\$35.

The Institute has made no investigations and disclaims all responsibility.

## HERE AND THERE

Announcement has been made of the removal of the offices of Besser & Co., Newark, New Jersey, to 17 Mechanic street.

M. H. Blinker announces the removal of his offices to suite 2301-08, 521 Fifth avenue, New York.

L. H. Conant & Co., New York, announce the removal of their offices to 10 East 40th street.

Joseph Getz, Reuben Westerman, Joseph Treiser and Isidore Schoen announce the formation of the firm of Joseph Getz & Co., 570 Seventh avenue, New York, with offices in Syracuse, New York, and Washington, D. C.

Albert M. Greenfield & Co. and Mastbaum Brothers & Fleisher announce their consolidation under the name of Albert M. Greenfield & Co., with offices at Walnut and Juniper streets, Philadelphia.

Harris, Kerr & Cook, 347 Madison avenue, New York, announce that Allan C. George and Murray Rappaport have been admitted to partnership in the firm.

Robert M. Holtzman, Philadelphia, announces the removal of his office to 603-4 Provident Trust building, 17th and Chestnut streets.

Hood & Strong announce the opening of an office in the Van Nuys building, Los Angeles.

Announcement has been made of the consolidation of the accounting practice of Lamb & Decker with that of George W. Byers, and a change in the firm name to Lamb & Byers. The firm will have offices in the Chamber of Commerce building, Cincinnati, Ohio.

Announcement has been made of the removal of the Wichita, Kansas, office of Lunsford, Barnes & Co. to 523 Fourth National Bank building.

Louis Marder has announced the removal of his office to the Knickerbocker building, 152 West 42nd street, New York.

Meyerson-Egert Co. have announced the removal of their offices to 848-50 Woolworth building, New York.

Philip N. Miller, William R. Donaldson, Harry C. Crosby, John J. McCue and William L. Keating, partners of Philip N. Miller & Co., announce a change in the firm name to Miller, Donaldson & Co. Edward H. Heilman, former partner at Philadelphia, has left the firm to take a position with a private organization.

L. A. Oates and R. J. Williams of Florida announce the formation of a partnership under the firm name of Oates & Williams, with office in the Realty Board building, Miami.

Announcement has been made of the removal of the Chicago office of Price, Waterhouse & Co. to 33 North La Salle street.

The partnership composed of Charles S. Rockey, J. K. Mathieson, Thomas W. Evers, J. Aitken, jr., William H. Welcker and J. Cyril McGarrigle under the firm name of Wiegner, Rockey & Co. has been dissolved.

Charles S. Rockey, William H. Welcker, Thomas W. Evers, David M. Fillman and Sydney V. Young announce the formation of a partnership, with Forrest B. Long and H. K. Gottshall as associates, under the name of Wiegner, Rockey & Co., Drexel building, Philadelphia.

John N. Aitken, jr., John K. Mathieson, John Ballantyne and J. Cyril McGarrigle have formed a copartnership for the practice of accountancy under the firm name of Mathieson, Aitken & Co., Drexel building, Philadelphia.

Lewis Wintermute and Robert W. Agler of Cleveland, Ohio, announce dissolution of the firm known as Wintermute & Agler.

# BULLETIN

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SERIES B, No. 63

## Annual Meeting, American Institute of Accountants

The committee on meetings of the American Institute of Accountants reports that the Carlton hotel, Washington, D. C., where the 1929 annual meeting will be held, has already received reservations from 150 members who expect to attend the meeting. This is an unusually large number of requests at a time so far in advance of the meeting and it leads the officers of the Institute to believe that the attendance at the 1929 meeting will break all records.

The programme has not yet been completed, but a preliminary draft will be published in full in the *Bulletin* of August 15th.

## Golf at Annual Meeting

The usual golf tournaments will be held in conjunction with the annual meeting of the American Institute of Accountants at Washington, D. C., September 18 and 19, 1929. In addition, privileges at several leading golf clubs near Washington will be available to members who wish to play informally. The annual contest for the Missouri golf trophy, a silver cup presented by the Missouri Society of Certified Public Accountants in 1925, will be held on the afternoon of September 16th. The contest for this trophy is a match between teams representing chapters of the Institute or state societies of certified public accountants. All members of each team must be either members or associates of the American Institute of Accountants and also members of the chapter or society which they repre-

sent. Matches will be played at medal play, 18 holes. The team with the lowest gross score, that is, the total of the four gross scores of the team, will be declared the winner and will have possession of the trophy for the ensuing year. Entries should reach the committee not later than Saturday, September 14th.

Prizes will also be offered for the three lowest gross and three lowest net individual scores. Play for these prizes will be open to all members and guests attending the meeting. Players entering the individual tournaments must give club handicap or their three lowest scores for 1929 at the time of filing entry. Twenty-seven strokes will be the maximum handicap. An entrance fee of \$3 for the purchase of prizes and a greens fee of \$3, totaling \$6, should be sent with each entry. The prizes will be distributed at the annual banquet.

James J. Hastings, a member of the committee on meetings, is in charge of the arrangements for golf, and entries should be addressed to him at the Federal Trust Building, Newark, N. J.

## Results of Institute Examinations

The examiners of the American Institute of Accountants have reported the results of the examinations conducted by state boards of accountancy which coöperated with the Institute on May 16th and 17th. The report shows that about 15 per cent. passed, 10 per cent. were conditioned in one subject and 75 per cent. failed.

The next examinations will be held in the middle of November, 1929.

## **Elijah Watt Sells Prize Withheld**

After consideration of the examination papers of all applicants for admission to the American Institute of Accountants who sat for written examination in May, 1929, the board of examiners has come to the conclusion that no paper has sufficient merit to warrant award of the Elijah Watt Sells scholarship prize of \$50. The prize is usually awarded to the applicant for admission to the Institute who makes the highest marks in the written examinations held in the spring.

## **Bankers Recommend "Verification of Financial Statements"**

In the June issue of the monthly bulletin of the Robert Morris Associates it is recommended that members of the association familiarize themselves with the document entitled "Verification of financial statements," recently prepared by the American Institute of Accountants and published by the federal reserve board. The item reads as follows:

### **SOMETHING TO READ**

"Verification of financial statements," the report of a special committee of the American Institute of Accountants, published in *THE JOURNAL OF ACCOUNTANCY* for May, 1929.

Those members who have followed the activities of our committee on coöperation with public accountants have been aware that a revision of the federal reserve board report on "Approved methods for the preparation of balance-sheet statements" has been in progress for some time. The article is the suggested revision and will be issued in pamphlet form in the near future by the federal reserve board at ten cents a copy, from advance notices.

Every member should read and become familiar with this article. Every member should ascertain how closely audited statements will be set up in accord with this report. By helpful coöperation and some insistence we can do much to bring about the issue of more exacting audits, forming better bases for credit judgment.

## **Report of Bankers' Committee on Coöperation with Accountants**

At the annual meeting of the Robert Morris Associates at Minneapolis, Minnesota, June 24th, the committee on coöperation with public accountants submitted the following report:

### **REPORT OF THE COMMITTEE ON COÖPERATION WITH PUBLIC ACCOUNTANTS**

Several messy jobs have come to our attention where, with the exception of the inventory account,

the certificate was unqualified, and again we want to put our members on their guard against the certificate in which a lengthy paragraph is devoted to a comment to the effect that the inventory valuation of raw material, in process and finished merchandise, supplies, etc., is based upon a physical inventory taken and priced by the management and certified to by a responsible official and then winding up with the phrase: "We have thoroughly tested the inventory as to the mathematical accuracy of computation and method of valuation."

There are a whole lot of words here that lead the credulous and none-too-discerning credit man to believe that the accountants have really done some worth-while checking in connection with the actual taking of the inventory, which is *not* the case, and in one particular instance that has come to our knowledge, the accounting firm has had quite a bit of explaining to do, as the merchandise over a period of years had been materially overvalued to an extent that should have been developed had the accountants exercised ordinary precautions.

An appropriate text for this sermon is a phrase coined by a prominent editorial writer of one of our newspapers: "It is not sufficient to use terms correctly, you must foresee how others will interpret them." Possibly that was in the mind of a certain accounting firm when they drafted a certificate which came to our attention the other day, which embraced the following sentence: "This inventory has not been verified by us in any manner." Please let that sink in for it is worthy of your attention and commendation.

Two or three years ago a firm of accountants were employed to make an audit which was to include the taking of inventory. Some three months previously another firm of accountants had been on the books, and when a representative of the newly employed accounting firm called upon the previous accountants they were cautioned by the latter to be particularly careful regarding any statements made to them by the general manager of the company or his associates, also in checking the inventory and reconciling the accounts payable. The accountants were further advised by the directors and interested banks to make a thorough-going job of this assignment.

The day previous to the audit the general manager had an inventory taken by his own employees, who reported a valuation of \$105,000. He then called in three trusted employees, told them that an inventory was to be taken by the accountants that evening and that these employees must see to it that the inventory totaled close to \$300,000. Company employees collaborated with the accountants in taking the inventory, sometimes calling off the stock to the accountants who did the recording, whereas at other times the process was reversed. In the first instance the employees would over-call the stock and in the second instance would over-record it. This process resulted in increasing the inventory valuation by \$40,000, which was not sufficient to meet the ideas of the general manager, who altered the sheets so that they showed a further increase of \$125,000. These sheets were then delivered to the accountants, who checked them as to extensions, prices and totals. This has reference only to the inventory at the plant. Reports of inventory sent in by

## Bulletin of American Institute of Accountants

store managers were increased fictitiously some \$250,000. Accounts payable were understated by \$100,000. The report showed an operating profit for the quarter of \$26,000, whereas in fact there was a loss of \$40,000. The financial statement turned out, as a result of this falsification, enabled the company to fund \$270,000 of current debts into long-time notes and to continue to obtain trade and bank credit. A suit against the accountants was threatened and may have been filed by this time; we are not definitely advised upon this point.

It is generally acknowledged that an accountant is obligated to make a notation on the balance-sheet of any assets hypothecated or liabilities secured. This is not infrequently ignored, particularly in connection with bankers' acceptances under letters of credit, which are apt to be described as "letters of credit," or "bankers' acceptances," or "drafts payable." The American Institute committee has ruled that notwithstanding the fact that such an item carries with it the assumption of security, this is not sufficient and the proper caption should be: "Acceptances against merchandise," or "Drafts against merchandise in transit," or the equivalent. In one instance where we saw fit to criticize an accountant for not properly captioning such an item, our case was somewhat weakened when he submitted a copy of the request for confirmation of indebtedness he sent out to the banks, which inquired as to the amount of the indebtedness, whether any of this was secured and if so how, and then showed us the confirmation he had received from two banks, one certifying that they had outstanding a specific amount for export acceptances "secured by trust receipts in like amount," the other bank merely certifying to a specific liability outstanding for acceptances on import letters of credit, no reference being made to the effect that these were secured by trust receipts.

For several years past the annual balance-sheets of a prominent corporation have carried among the current assets an item "Listed securities at less than market value." On December 31, 1928, this item amounted to approximately \$7,000,000. There is nothing to indicate just what securities are embraced in the item but in a careful reading of the letter of the president of the corporation to the stockholders, which accompanies the statement, our attention was arrested by a paragraph in which he refers to a large block of common stock being carried in the treasury of the company for purposes to be determined on later by the management. The American Institute committee has ruled that it is not improper to carry such securities as a quick asset providing the securities were originally issued and sold for cash, have been bought in from surplus funds as an investment, not for sinking-fund purposes, and that there is a recognized outside market for them. However, to obviate misinterpretation they should be specifically described, and then a bank in analyzing the statement can throw them out of current assets if it sees fit to do so. When this circumstance was brought to the attention of the accounting firm the first comment made by them was to ask whether the bank had read over the president's letter. This is not, as we see it, a very satisfying answer, adding, as it does, one more matter for consideration

before we may accept an audited statement at its face value.

In New York state an accountant is prohibited from describing himself on his letterhead as a certified public accountant unless he has passed the New York state examinations. Our attention was called to an attempt on the part of an accountant to meet this requirement and evade it at one and the same time by using the style "certified public accountant" and then at two distant points on his letterhead in incredibly small letters the initials "N. H.," so that they appeared more like quotation marks than anything else. A sample of the letterhead is attached to this report for inspection by any interested members. This was taken up with the American Institute of Accountants of which this particular accountant had been a member for the past ten years. In due time we received a letter from the Institute advising us that this accountant had undertaken not to misrepresent himself hereafter.

In some of our previous reports we have referred to the fact that a committee of the American Institute of Accountants was engaged in a recension of the pamphlet "Approved methods for the preparation of balance-sheet statements," published by the federal reserve board some twelve years ago. This report has recently been published and will, as we understand it, be reprinted by the federal reserve board in a special edition as was the original article, which sold up to 65,000 copies. The members of the American Institute committee must have devoted many hours, in fact, all told, many days, to this most constructive job at the sacrifice of their own personal business, and must have been moved by the spirit which prompted the late Theodore Roosevelt to say that "Every man owes a certain amount of his time to the upbuilding of the profession to which he belongs." It behooves each and every member of the Robert Morris Associates to familiarize himself with the contents of this paper, officially described as "Verification of financial statements," and satisfy himself as to the whys and wherefores when an accountant does not live up to its requirements in the preparation of a financial statement.

You will be interested to know that the economic council of the California Bankers Association, of which one of our members, Mr. George A. Van Smith of the Anglo & London Paris National Bank of San Francisco, is chairman, has entered into an agreement with the California State Society of Certified Public Accountants formally adopting this report as the standard of minimum requirements for audited balance-sheets, and that both the accountants' and the bankers' associations have appointed special permanent committees for sustained contact and discussion of mutual problems. This is a most forward-looking step and we believe California is the first state formally to adopt in this way a standard covering the preparation of balance-sheets and profit-and-loss statements.

Respectfully submitted,

EDWARD E. BARKER, CLEVELAND V. CHILDS, JOHN CLAYTON, JOHN N. EATON, PHILIP F. GRAY, EDMUND WILLIAMS, HARVEY E. WHITNEY, *Chairman*.

## **California Accountants and Bankers Adopt "Verification of Financial Statements" as Standard**

The report of the committee for coöperation with bankers of the California State Society of Certified Public Accountants, presented at the annual meeting on June 3rd, announces that the document "Verification of financial statements" has been adopted by mutual agreement of the California Bankers Association and the society's committee as an expression of standard procedure to be followed by certified public accountants of California. Statements properly certified on the basis of audits conducted in accordance with these instructions will be generally acceptable to members of the California Bankers Association.

The committee's report was accepted by the society and the following resolutions were adopted:

(Resolution following adoption of report of committee for coöperation with bankers)

WHEREAS, the California State Society of Certified Public Accountants committee for coöperation with bankers and the committee on credit practices of the California Bankers Association have recommended that the requirements set forth in the revised bulletin, styled "Verification of financial statements," appearing in the May, 1929, issue of *The Journal of Accountancy* as the basis of standards for certification of financial statements be adopted,

**NOW THEREFORE BE IT**

**RESOLVED**, that the California State Society of Certified Public Accountants determine that the minimum requirement for certification of financial statements shall be the standards set forth in the May, 1929, issue of *The Journal of Accountancy*, under the title "Verification of financial statements."

**BE IT FURTHER**

**RESOLVED**, that if said minimum requirements have not been observed in preparing said statements, each member of the California State Society of Certified Public Accountants responsible for such certificate will indicate on the balance-sheet or so qualify the certificate appended to said statements as to make full disclosure showing wherein such minimum requirements have not been complied with.

**BE IT FURTHER**

**RESOLVED**, that a copy of this resolution and the report of the committee for coöperation with bankers be forwarded by registered mail to every holder of a certified public accountancy certificate issued by the state of California.

**BE IT FURTHER**

**RESOLVED**, that an appropriate committee of the California State Society of Certified Public Accountants be empowered to adopt rules and regulations for the carrying out of the intent and spirit of this resolution, including the right to

consider complaints and make recommendations to the board of directors thereon, and

**BE IT FURTHER**

**RESOLVED**, that a copy of this resolution and the report of the committee for coöperation with bankers be transmitted to the chairman of the committee on credit practices of the California Bankers Association to be presented at the forthcoming annual convention of the California Bankers Association.

(Resolution following adoption of resolution governing minimum audit requirements)

WHEREAS, the California State Society of Certified Public Accountants has adopted a resolution establishing minimum certification requirements and has provided for the creation of a committee to be charged with the responsibility of carrying out the intent and spirit of such resolution,

**NOW THEREFORE BE IT**

**RESOLVED**, that a permanent committee of the California State Society of Certified Public Accountants, to be styled the committee for coöperation with bankers, be created, consisting of the presidents of the San Francisco and Los Angeles chapters of the society together with two additional members from each chapter of the society to be appointed by the president of the California State Society of Certified Public Accountants.

**BE IT FURTHER**

**RESOLVED**, that in order to preserve continuity of the policies of such committee its members other than the presidents of the San Francisco and Los Angeles chapters be appointed for a term of three years, and

**BE IT FURTHER**

**RESOLVED**, that any vacancies which occur in the personnel of the committee other than those arising from the expiration of term of office, as hereinabove provided, be filled by the president of the society.

**BE IT FURTHER**

**RESOLVED**, that the committee herein created for coöperation with bankers be and is hereby empowered jointly with the standing committee on complaints to adopt rules and regulations for the carrying out of the intent and spirit of the resolutions adopted this day providing for minimum requirement for certification of financial statements. Such joint committee is empowered to consider any and all complaints relating to certification of financial statements. The said joint committee is, however, not authorized to take any action whatsoever in respect of any complaints except to make investigations and hold hearings and make a report and recommendations to the board of directors of the society on all complaints referred to them for consideration.

The complete text of the report of the committee on coöperation with bankers is as follows:

TO THE PRESIDENT, CALIFORNIA STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS:

DEAR MR. McLAREN:

Your committee for coöperation with bankers, appointed in October, 1928, is pleased to present the following report:

Believing that the work of this committee could reach better results by holding subcommittee meetings, and more particularly because the personnel of the committee was divided between southern California and northern California, we have been functioning from the beginning as southern and northern groups and also have held plenary sessions.

It was a favorable coincidence that the California Bankers Association had recently appointed a committee on credit practices and instructed its committee to confer freely with the committee appointed by our society. These committees held joint sessions in Los Angeles and San Francisco and in both cities the accountants were welcomed by the bankers in a spirit of earnest desire to do constructive work, the objective being greater safety under banking credit and justified extension of the work of accountants behind financial statements for credit purposes.

Before proceeding with the work of this committee, it will be well briefly to outline the causes principally responsible for its appointment.

The immediate cause of our society's action in appointing this committee for coöperation with bankers is found in the following circumstances:

1. A report made to California bankers by Mr. George A. Van Smith, vice-president, Anglo-London Paris National Bank, and chairman of the economic council, at the California Bankers Convention held at Pasadena in June, 1928.

2. An editorial appearing in the September, 1928, number of *The Journal of Accountancy* bearing upon Mr. Van Smith's report.

3. Various conferences and friendly discussions between leading accountants and Mr. Van Smith, both before and after the publication of the editorial of Mr. A. P. Richardson in *The Journal of Accountancy*.

4. The appointment of a special committee by the California Bankers Association, known as the committee on credit practices.

While the bankers' committee was in course of formation and before it had begun to function, Mr. Van Smith, as chairman of his committee, requested Mr. McLaren, president of our state society, to appoint a committee that might jointly work with the bankers' committee in formulating certain standards and minimum requirements in the preparation of accountants' statements, reports and certification of findings. Our committee was forthwith appointed by President McLaren and lost no time in getting down to work.

The first joint committee meeting with the bankers was held at Los Angeles, November 22nd. This was followed by a similar meeting in San Francisco early in December and meetings have continued from time to time both in San Francisco and Los Angeles.

At the first joint meeting with the bankers' committee, it was decided from the start that as a foundation for minimum requirements from accountants for banking credit, the federal reserve bulletin, published by the U. S. government under date of April, 1917, as a guide for "Approved methods for the preparation of balance-sheet statements," should be the general guide and accepted or approved outline to be followed by the certified public accountants of California,

and statements made in accordance therewith and properly certified thereto would be generally acceptable to members of the California Bankers Association. To put this action into the records of our state society and of the bankers' association, your committee passed the following resolution:

WHEREAS, an existing and duly authorized committee of the California Bankers Association, known as the committee on credit practices, has requested the president of California State Society of Certified Public Accountants to appoint a committee to coöperate with said bankers' committee, and

WHEREAS, such committee of accountants, known as committee of accountants in coöperation with bankers, having been duly appointed and following such appointment, has held preliminary meetings with the members of said bankers' committee, and

WHEREAS, it having been unanimously agreed between the members of our committee and members of said bankers' committee, said agreements having thus far, however, been non-committal, and not in any sense binding upon our committee as a whole, but merely expressing individual opinion; namely, that the established requirements of the federal reserve board as outlined in its revised bulletin of April, 1917, shall be considered and made the minimum requirements of bankers from accountants, to be covered and comprehended by the certificates of certified public accountants,

NOW THEREFORE BE IT

RESOLVED, that we, the committee of accountants in coöperation with bankers declare that we are in agreement with the committee on credit practices, and declare that the minimum requirements to be covered by properly audited reports and accountants' certificates for credit purposes shall be substantially as set forth and comprehended in the federal reserve bulletin of April, 1917, as prepared by or under the supervision of the federal reserve board with the assistance of the American Institute of Accountants.

BE IT FURTHER

RESOLVED, that we submit these acts and findings to the California State Society of Certified Public Accountants for consideration and approval.

A copy of the foregoing resolutions was delivered to the bankers' committee on credit practices. The bankers' committee had the resolutions of our accountants' committee read before the executive council holding a deliberative session at Del Monte on December 14, 1928, which meeting of bankers ratified the findings or recommendations resulting from the joint and several deliberations of the two committees, and approved the foregoing resolutions of your committee.

During the course of the negotiations of your committee with the bankers' committee information was received that the American Institute of Accountants had undertaken a revision of the federal reserve bulletin of April, 1917, and it was informally agreed between the two committees that if such revision were completed in due season modification of the findings of the two committees might be in order.

The May, 1929, issue of *The Journal of Accountancy* contains a revision of the above-mentioned



federal reserve bulletin, entitled, "Verification of financial statements," which apparently has had the support of the federal reserve board, which latter will now publish the Institute's text for general distribution at an early date. The revised text has been excellently prepared and in the opinion of your committee establishes standards in keeping with the best current thought of the profession. Your committee has therefore suggested to the bankers' committee that the minimum requirements set forth in the Institute's bulletin, styled, "Verification of financial statements," be substituted for the standards contained in the federal reserve bulletin of April, 1917, and is pleased to report that the bankers' committee agrees with this view.

In the opinion of your committee an appropriate resolution to give effect to this understanding should be approved by the annual meeting of the California State Society of Certified Public Accountants and if the society decides to adopt these standards, machinery should be provided to carry out the spirit and intent of the resolution.

Respectfully submitted,

JOHN R. RUCKSTELL, *Chairman.*

## **Coöperation between Accountants and Bankers**

At a convention of the California Bankers Association at Sacramento, June 14th, John R. Ruckstell, past president of the American Institute of Accountants and chairman of the committee on coöperation with bankers of the California State Society of Certified Public Accountants, delivered an address on coöperation between accountants and bankers. He pointed out the faults of both professions which have delayed complete coöperation in the past and showed how these difficulties have been gradually overcome and how with the assistance of the American Institute of Accountants relations between accountants and bankers are rapidly improving. Mr. Ruckstell said in part:

You are honoring the California Society of Certified Public Accountants and the American Institute of Accountants in giving me the courtesy of the floor as representative of our profession, so I gratefully accept this opportunity.

This coöperation between the bankers and accountants of California is very gratifying. And as naturally intended, I am sure it will result in great and measurable benefit. Great and far-reaching reforms often start from a definite place or a simple incident. A year ago, when we read in the news columns about a prominent California banker at Pasadena challenging the accounting profession, it produced an effect (if I may use a somewhat exaggerated illustration) not unlike

that following from the challenge of Martin Luther, nailed to the door of the church at Wittenberg, which shook the Rock of Peter in the Vatican; or the firing on Fort Sumpter that shook the foundations of a great republic.

My comparatives are a humorous extravagance, but they serve my point. As Luther and the Confederate gun initiated great reforms alike in church and in republic, so the fulminations from the banker's platform at Pasadena awakened bankers and accountants from a somewhat careless indifference to a better mutual understanding, wherein the temporary opponents have studied and reconciled their differences and the attained results have been mutually beneficial and certainly well worth while.

On the part of the banker, he has often been too timid in dealing with a weak account—fearing the loss of a customer—and he has also at times failed to read with deliberate care the accountant's report. On the part of the accountant, he also has been timid, fearing the loss of patronage by a too minute and time-consuming study and inspection of facts and records, and he has not had either the sufficiently direct and active urge of the banker, or sufficiently mandatory rules of procedure from within his own profession.

But the work of the American Institute of Accountants in preparing the requirements that shall be followed by the accountant and required by the banker, the contacts between the Institute and the Robert Morris Associates, and following down to the action of our bankers' and accountants' committees in California, there has been supplied what formerly was lacking, namely, more definite support to the courage of both banker and accountant. It is significant and worthy of remark, as showing the coöperative spirit between banker and accountant, that complete harmony has marked the joint deliberations of the bankers' committee on credit practices and the accountants' committee for coöperation with bankers. And why not? Professional accountants realize that the safe credit of community, city, state and nation is of the highest importance to public welfare and that it is our duty at all times to protect the banking interests. And so the committee of bankers and the committee of accountants, working separately and jointly, have done something fundamentally constructive. What we are doing will be appreciated by the American Institute of Accountants and will influence other states to follow the example of California.

Prior to Mr. Ruckstell's remarks, George A. Van Smith, chairman of the economic council of the California Bankers Association, delivered an address in which he warmly praised the work of the committee of the American Institute of Accountants which had prepared the pamphlet entitled "Verification of financial statements," published by the federal reserve board as a recension of its previous publication, "Approved methods for the preparation of balance-sheet statements."

## **Idaho Newspaper Attacks Competitive Bids for Public Audits**

A front-page editorial item in the *Idaho Pioneer* for May 17, 1929, expresses disapproval of competitive bids as a basis for engagement of public accountants to audit the records of municipalities. The editorial says, in part:

"There is much to be said in favor of giving all big work out to bids, and making a contract for the performance, but like all good things the idea may be carried too far. One of the exceptions that may or may not prove the rule, is that of giving out the city auditing to the lowest bidder. Auditing is one thing where economy, within reason, should not count.

"When an accountant takes over a set of books he has not the slightest idea how long the job is going to take him, nor into what devious paths his inquiry may lead him. If it leads him too far afield, he must either be unfair to himself or to his employers. There is no way by which an auditor can tell on a job like the city auditing within a hundred hours of the time he should put in to do the work conscientiously.

"A contract audit is not a satisfactory audit, because there is always the feeling left that it is not as thorough as it should be. It may be, and probably is a fact that in most cases the result is quite what it should be, but the element of doubt that remains is one that should not be allowed to exist."

## **Nebraska Accountants Coöperate in Examination of State Banks**

The Nebraska Society of Certified Public Accountants, through the coöperation of its members, has been active in persuading state officers to employ members of the society in conducting an investigation of defunct banks under control of the guaranty fund commission of the state to determine causes of their financial difficulties.

The movement for audit of such institutions was initiated in the summer of 1928 and at the recent session of the legislature an appropriation of \$150,000 was approved to defray the expenses of such an investigation. The Nebraska society communicated with officers who had been appointed to supervise the project and, after an extensive educational campaign, convinced the authorities that the plans submitted by the society had merit. Consequently members of the society have been engaged to conduct the examination, which involves audit of nearly 300 banks and investigation of the activities of several state departments related to the

conduct of these banks when in the hands of receivers.

## **Texas Bank Advertises Accounting**

The American Exchange National Bank, Dallas, Texas, recently caused an advertisement to be published in a Dallas newspaper on the subject of correct accounting. The advertisement was headed, "Navigators of the business course," and the text read as follows:

"Into the thickness of a fog wings the aviator. All sense of direction becomes lost in the maze. Only the instruments are left as a guide. Upon their accuracy and upon their reading the pilot trusts his life and the lives of his passengers.

"The world of business, too, has its fogs and pitfalls through which the head of an institution must safely chart his course.

"Business needs the services of accurate instruments and men trained in their reading. Supplying both is the trained accountant. Not only is he able to marshal known facts for business guidance but his knowledge places him in excellent position to make readings from the charts, readings that will safely carry the business into the security of clear weather.

"From the time of 1490, when Luca Paciolo evolved the double entry, until the present day, the accounting profession has been making strides. From a service of mere record keeping the profession has advanced until today the accountant, either public or as a member of the firm, is recognized as a constructive force throughout the organization.

"Good accounting records and accurate balance-sheets mark the progressive company. Profit leaks are discovered quickly when figures are analyzed by the trained accountant. Profitable activities can be pushed vigorously once they have been separated by the light of known facts. Bank credit, too, is more quickly available to the business whose condition is accurately portrayed by an audited statement.

"The American Exchange National Bank recognizes the value to every going business of a periodical audit of its affairs by a reputable accounting firm, and lends constant encouragement to this approved method of accurately determining the true condition of any business enterprise."

## **Meeting of Accountants at Portland**

About 100 members of the Oregon and Washington Societies of Certified Public Accountants and of the Institute of Chartered Accountants of British Columbia attended a meeting at the Portland hotel, Portland, June 21st. The meeting was sponsored by the Oregon state society. At the morning session Pearce C. Davis read a paper entitled "Limitations of the present balance-sheet," and Conda J. Ham spoke

on "Municipal accounting." Alex C. Rae led the open discussion.

R. J. Leo, C. E. Rawlinson and J. P. Robertson spoke during the afternoon period on various subjects of accounting, and A. L. Andrus led discussion of their remarks.

Mr. Rae acted as toastmaster at a dinner in the evening, at which T. Henry Boyd and Arthur Berridge were the speakers.

### **Society of Incorporated Accountants and Auditors**

The 1929 year-book of the Society of Incorporated Accountants and Auditors shows that the total membership is 5,051.

### **Scottish Chartered Accountants**

The official directory of Scottish Chartered Accountants for 1929-30 shows that the present membership of the three societies of Edinburgh, Glasgow and Aberdeen is 2,825.

### **Institute of Chartered Accountants and Actuaries of Glasgow**

At the seventy-fifth annual meeting of the Institute of Chartered Accountants and Actuaries of Glasgow, the following were elected members of council: James R. Mackay, William Duncan, John R. Turner and Archibald Hogg, jr. The remaining members of council were re-elected. The council for the year is as follows: president, Peter Rintoul; members of council, Matthew Mitchell, Alexander Murdoch, W. F. Andrew, Andrew Gilmour, Sir John M. MacLeod, Bart., Hugh M. Mackie, J. Ivan Spens, Thomas White, James R. Mackay, William Duncan, John R. Turner, and Archibald Hogg, jr.; auditor, Joseph Patrick; treasurer, D. Johnstone Smith; secretary, D. Norman Sloan.

### **Two Canadian Institutes Elect Officers**

At the annual meeting of the Institute of Chartered Accountants of Alberta held at Calgary, May 18th, the following officers were elected: Harry E. Howard, president; J. C. Thompson, first vice-president; Kenneth J. Morrison, second vice-president. The following were elected members of council: J. A. Henderson, W. S. Johnstone, D. A. McCannell, M. C. McCannell, D. A. Ross and John H. Williams.

The Institute of Chartered Accountants of Ontario held its annual meeting at Toronto on June 19th. H. Percy Edwards was elected president; H. E. Guilfoyle, first vice-president; H. J. Stiff, second vice-president, and H. A. Shiach, secretary-treasurer. Members of council were elected as follows: R. Easton Burns, A. G. Calder, Arthur A. Crawley, A. F. Dowie, Charles S. Eddis, H. Percy Edwards, H. D. Lockhart Gordon, Harvey E. Guilfoyle, Fred Page Higgins, Henry T. Jamieson, Kris A. Mapp, D. M. McClelland, G. M. Mulholland, Harold A. Shiach and Fred J. Stiff.

### **Argentine Accountants Elect Officers**

At a meeting of the Colegio de Doctores en Ciencias Economicas y Contadores Publicos Nacionales on May 14th, at Buenos Aires, the following officers were elected: president, Andrés Ronco; vice-president, José C. Catán; secretary, Eduardo Rodríguez Berdier; assistant secretary, Jaime Mateu Pagés; treasurer, Pedro Heriberto González; assistant treasurer, Eduardo M. Gonella; directors, Pedro J. Acevedo, Abelardo M. Barrios, Juan M. Eyherabide, Alberto González Llanos, Enrique Pessagno, Cecillio del Valle and Mateo Vodanovich.

### **International Congress on Accounting**

The executive committee of the international congress on accounting has published a circular summarizing plans, now complete, for the meeting to be held at the Hotel Commodore, New York, September 9-14, 1929. Summaries of the programme have been published in previous issues of this *Bulletin*. Details of entertainment features will be announced later. Exhibits of machines, office equipment, cost systems of trade associations and of particular industries, and historical material relating to accountancy will be on view during the time of the session. The circular shows that accounting societies in 22 countries have received official invitations to send representatives to the congress.

### **Western Accountants Active in Church Work**

Attention has been drawn to the activities of several accountants on the Pacific coast

in administering financial affairs of their respective church organizations.

H. Ivor Thomas, past president of the California State Society of Certified Public Accountants, is treasurer for the Protestant Episcopal diocese of Los Angeles. Charles Lombard is treasurer for the diocese of Sacramento, William Whitfield is treasurer for the diocese of Oregon and Frederic M. Lee is treasurer for the diocese of California. Mr. Lee is author of a pamphlet entitled, "Vestryman's guide to canons dealing with financial relations of parishes and missions to the diocese of California and general church."

### **New Assistant Postmaster General Honored by Fellow Accountants**

The Michigan Association of Certified Public Accountants on June 13th tendered a banquet in honor of Frederic A. Tilton, who has recently been appointed third assistant postmaster general of the United States. More than sixty persons attended the banquet.

### **North Carolina Accountant Elected to Official Position**

Wright T. Dixon, Raleigh, North Carolina, an associate of the American Institute of Accountants, has accepted the position of secretary of the state sinking-fund commission which was designated by the 1929 legislature of North Carolina to exercise supervision over financial affairs of counties, cities and other political subdivisions.

### **Appointment of Public Accountant in Bankruptcy Proceedings**

Ernest B. Horwath, a public accountant, has been appointed by the United States district court, southern district of New York, as a member of the committee of appraisers in certain proceedings in bankruptcy.

### **Accountants Support Plan for State Accounting Department**

A group of public accountants in Minnesota has gone on record as endorsing a plan for the establishment of an accounting

department and fund for Minneapolis, under the city comptroller, which has been advocated by a committee of investigation. The plan is also supported by the taxpayers' association of Minneapolis and by the Municipal Accounting Study club, an organization of city and county employees.

Public accountants who have announced their approval of the plan are Archie Wagner, H. C. J. Peisch, A. B. Bolte, Emil Kroeger, J. A. Boulay and H. E. Sandahl.

### **Goldsmith Given Two-year Sentence**

H. Ely Goldsmith, an accountant, convicted of procuring entry of an alien into this country by the use of forged papers, was sentenced on June 25th, by Judge Francis G. Caffrey of the U. S. district court in New York, to imprisonment for two years in the federal penitentiary in Atlanta.

In 1925, Goldsmith brought action for a writ of mandamus to compel the board of accountancy of the District of Columbia to issue him a C. P. A. certificate, but failed.

### **New Cost Accounting for Air-mail Service**

Adoption of a new cost-accounting system for the air-mail service has recently been approved by a special postal and contractors' committee, it has been announced. The plan of procedure includes a questionnaire to obtain from air-mail contractors information on operating costs. This information is to be used as a basis for the readjustment of the accounts of contractors. The superintendent of the air-mail service, Earl B. Wadsworth, was chairman of the committee responsible for adoption of the system.

### **Department of Commerce Advocates Cost Accounting for Independent Grocers**

A recently completed study of the United States department of commerce, division of domestic commerce, at the request and with the coöperation of the National Retail Grocers Association recommends, among other things, adoption of an adequate system of cost accounting.

## **Uniform System of Accounts for the Oil Industry**

The American Petroleum Institute has published in pamphlet form the report of the committee on uniform methods of oil accounting with revisions up to December 31, 1928. The pamphlet contains a form of balance-sheet with chart of accounts and explanations, and a form of income account and earned-surplus analysis with textual explanations. The American Petroleum Institute has adopted the system, subject to such changes from time to time as may be deemed necessary.

## **Controllers' Congress Studies Retail Accounting Methods**

The report of the chairman of the Controllers' Congress of the National Dry Goods Association, delivered at its tenth annual meeting, refers at length to the activities of the congress in considering accounting problems of importance to the retail trade. The expense manual compiled by a committee which devoted several years to the work has recently been distributed as a supplement to the standard method of accounting prepared some years ago. During the current year, according to the report, new sections of the expense manual have been completed, viz., special explanations, adjustment of natural divisions, presentation and exchange of statistics and leased departments.

In addition the report mentions statistics which the congress compiled during the past year on the following subjects: operating expenses, selling salaries, merchandise statistics, trend of sales and sales-advertising ratios.

## **Tenth International Cost Conference**

In accordance with previous announcements the tenth international cost conference of the National Association of Cost Accountants was held at West Baden

Springs, Indiana, June 17th, 18th, 19th and 20th. In addition to the technical sessions which were described in the June *Bulletin*, the programme included a visit to the quarries of the Indiana Limestone Company at Bedford, Indiana. There was an exhibit of mechanical devices related to accounting, under the direction of J. B. Baerncopf. The annual banquet was unusual in that all speeches were omitted, an elaborate programme of entertainment being substituted. Sports included a golf tournament, baseball and bowling matches and tennis and swimming.

## **Proceedings of National Tax Association**

A bound volume of the proceedings of the twenty-first annual conference on taxation of the National Tax Association at Seattle, Washington, August 27-31, 1928, has recently been published.

There were nine sessions at the conference and papers are all included in the volume. Among the articles are a review of tax legislation in the various states for 1928 and discussions of the trend of public expenditures, state supervision of public expenditures, the budget, solution of the tax problem, taxation of commercial motor transports, proper taxation as affected by the bank-tax situation under classified tax system, the general property tax as affected by the bank-tax situation, application of principle of classification to intangible property, equalization of local assessments, taxation and reforestation, simplification of the income tax and all business taxes, state personal income taxes, exemptions and deductions, reciprocity and maintenance taxes and estate and share taxes. Special conditions related to taxation in the following states were also discussed: Oregon, California, Iowa, Illinois, North Carolina, New York, Pennsylvania, Virginia, Maryland, Montana, Kansas, Minnesota, North Dakota.

P. W. Danforth, Boston, addressed the Attleboro Lions club, February 5th, on the Massachusetts automobile excise tax, and on April 23rd he delivered an address before the Worcester Credit Men's

Association, entitled "How the credit man can help to keep a business traveling on all four wheels." Mr. Danforth has recently been appointed a member of the Massachusetts board of accountancy.

## STATE LEGISLATION

The only state legislatures still in session are those of Georgia, Wisconsin, Mississippi and Texas. The last two are in special session and so far as is known are not now considering any bills of special interest to accountants.

### Connecticut

The uniform system of accounting recommended by the American Hospital Association will be installed by all hospitals in Connecticut which receive state aid, according to senate bill No. 365, approved by the governor June 6th.

### Florida

House bill No. 114, which passed the Florida legislature and became law June 29th, without the governor's signature, authorizes appointment of additional assistant auditors in counties of a certain size.

Public accountants, among other professional practitioners, would be required to pay an occupational licence tax of \$10 by house bill No. 132, introduced June 7th.

### Georgia

On June 27th a bill was introduced in the senate of Georgia to substitute for the existing C. P. A. law an act of the two-class type, providing for registration of public accountants, as well as of certified public accountants. Licences to practise as a public accountant would be issued without examination until ninety days following passage of the bill.

Accountants from outside the state would be required to obtain licences to practise temporarily in Georgia, paying a fee of ten dollars. Such licences would be granted only to certified public accountants or chartered accountants and would be valid only for specific engagements, expiring after ninety days.

Communications to a public accountant in his professional capacity would be privileged under the proposed law.

The new bill is designated as senate bill No. 10, and has been referred to the committee on judiciary.

### Illinois

Illinois senate bill No. 461, which provided for registration as public accountants, without examination, of persons employed in an accounting capacity by the state, passed the legislature but was vetoed by the governor on June 26th.

### Iowa

Following is the text of Iowa senate bill No. 477, as it was introduced and subsequently amended, which has been approved by the governor. The act provides for audit of accounts of the state highway commission by assistants of the director of the budget in conjunction with a certified public accountant.

AN ACT TO AMEND SECTION THREE HUNDRED FORTY (340), CODE, 1927, RELATING TO THE AUDIT OF THE ACCOUNTS OF THE PUBLIC DEPARTMENTS OF THE STATE, TO MAKE AN APPROPRIATION FOR SUCH AUDIT, AND TO REPEAL SECTION FORTY-SEVEN HUNDRED FIFTY-FIVE-B THIRTY-SEVEN (4755-B37), CODE, 1927, AND SECTION SIX (6), CHAPTER ELEVEN (11), ACTS, SPECIAL SESSION OF THE FORTY-SECOND (42ND) GENERAL ASSEMBLY.

BE IT enacted by the general assembly of the state of Iowa:

SECTION 1. Section three hundred forty (340), code, 1927, is amended by adding thereto the following, to wit:

"The annual audit of the accounts of the state highway commission shall be made by accountants from the office of the director of the budget in connection with a certified public accountant and there is hereby annually appropriated from any funds in the state treasury, not otherwise appropriated, a sum sufficient to defray the compensation of such certified public accountant."

SEC. 2. Section forty-seven hundred fifty-five-b thirty-seven (4755-b37), code, 1927, and section six (6), chapter eleven (11), acts, special session of the forty-second (42nd) general assembly are hereby repealed.

SEC. 3. Publication clause. This act is deemed of immediate importance and shall take effect from and after its publication in two (2) newspapers of this state as provided by law.

### Michigan

An act to authorize the attorney general of Michigan to institute investigation of books and accounts of any township or school district was approved April 18th. The bill apparently does not provide for engagement of public accountants for such

investigation. The audits are to be performed by employees of the auditor general.

### **Pennsylvania**

A voluminous act, known as the fiscal code of Pennsylvania, was approved by the governor of the state April 9th. It relates generally to the finances of the state government and its departments. One provision of interest permits the department of revenue to employ expert accountants to make investigations of books and accounts of taxpayers liable by law to submit a report to the department, for tax purposes.

## **STATE BOARDS OF ACCOUNTANCY**

### **Kansas**

Frank A. McCoy is acting as secretary of the Kansas state board of accountancy. Gerald M. Conkling, the former secretary, has moved from the state and consequently has resigned his position.

### **New Jersey**

The state board of public accountants of New Jersey recommended on June 12th that certified public accountant certificates be granted to the following candidates: David F. Alpern, Andrew C. Angelson, Frederick Banks, Edward Baumgarten, Herman J. Freiman, Martin L. Fleischman, Samuel H. Glassman, Elmer L. Glover, Isidore Horowitz, Emmett W. Housh, Clarence W. Hufnagel, Leopold Isserman, Enoch L. Kincaid, George H. Kingsley, Herman Lepp, John F. D. Rohrbach, David

### **Texas**

Senate bill No. 156, which has passed both houses of the Texas legislature and is before the governor, fixes compensation for county auditors, in counties of certain size, between \$1,800 and \$2,400 a year, provided that when taxable values in a county shall exceed \$15,000,000 auditors' salaries may be revised in accordance with law. A section of the bill mentions a requirement that county auditors devote their entire time to their duties as a reason for the present bill to increase their salaries.

Sorger, Frank Stein, I. M. Sternrich, James Stanley Teunon.

### **Ohio**

Louis C. Weiss has been appointed a member of the board of accountancy of Ohio to fill the position which had become vacant by the resignation of E. S. Thomas. The membership of the Ohio board now consists of Martin J. Arft, president, Sidney J. Collins and Mr. Weiss.

### **Washington**

Six candidates for the C. P. A. certificate of Washington passed the examinations held May 16 and 17, 1929. Forty-seven applicants attempted the examinations. The successful ones are: Harold W. Cameron, Roy Clyde Comer, James Hall, Charles F. Hamlin, T. H. Cliff Harding and Harry James Smith.

## **NEWS OF LOCAL SOCIETIES**

### **California State Society of Certified Public Accountants**

At the annual meeting of the California State Society of Certified Public Accountants on June 18th, the president was unanimously authorized to appoint a committee whose duty it would be to render assistance to families of deceased members or members unable to carry on their practice because of sickness. This committee upon

request will conduct the practice of the member concerned without any charge for services until permanent arrangements may be made. The following members were appointed to serve on the committee: C. P. Carruthers, William Dolge, Anson Herrick, George R. Keast and Lewis Lilly.

The secretary of the society was instructed to organize a placement or registration bureau for accountants seeking employment and firms seeking accountants.

**SAN FRANCISCO CHAPTER**

A business meeting of the San Francisco chapter, California State Society of Certified Public Accountants, was held at the Commercial club, June 18th. Annual reports of officers were presented and officers were elected for the ensuing year, as follows: president, Harry J. Cooper; vice-president, Anson Herrick; secretary-treasurer, B. W. Bours; directors, James E. Hammond and Lewis Lilly.

**Connecticut Society of Certified Public Accountants**

The annual outing of the Connecticut Society of Certified Public Accountants took place on June 24th at the Pease house, Saybrook, Connecticut. Festivities commenced at 10:30 a.m. and the day was devoted to outdoor sports. A buffet luncheon was served at noon and dinner at 7 in the evening. Dinner was followed by dancing and a cabaret performance.

**Annual Meeting of Florida Institute**

The annual meeting of the Florida Institute of Accountants was held at West Palm Beach, June 21 and 22, 1929. There was an unusually good attendance, each of the six local chapters being represented.

The Rev. Wm. P. S. Lander offered invocation. Vincent Oaksmith, mayor of West Palm Beach, delivered an address of welcome to which Homer Graham responded.

The usual reports of officers and committees were presented. Papers were read by Gordon M. Hill on "Local inventories;" Orton W. Boyd on "Some peculiarities of municipal accounting;" B. E. James on "The natural business year and what we can do to forward it;" V. C. Winnel on "The deathknell of accountancy." Robert Pentland, chairman of the state board of accountancy, spoke of the activities of the board during the past year and urged continuous support of the institute. J. E. Bigham read a paper on the new pamphlet entitled "Verification of financial statements," published by the federal reserve board.

The banquet was served in the Elks club. Mr. Boyd acted as toastmaster. An address was delivered by Charles H. Warwick on "Accountancy's relation to the legal

profession," and another by Howard W. Selby on "Developments in modern business."

Much interest was shown in the election of officers. The nominating committee had unanimously recommended election of Walter Mucklow as president and C. H. Goodrich as secretary. When elections were called for, Mr. Mucklow reminded the members that he had been president of the successive Florida societies since 1904, an unprecedented record, and that in 1928 he had agreed to serve for twelve months only, and he consequently asked permission to withdraw his name. In these circumstances he nominated Jay E. Bigham for president, who was elected.

Gordon M. Hill, C. C. Potter and W. E. Keen were elected, respectively, as first, second and third vice-presidents; C. D. Costar was elected treasurer and J. A. Sweeney, secretary.

Resolutions of affection and gratitude to the retiring president were adopted, and he was presented with a gold watch, was elected a life member of the Florida institute, with remission of all dues, and was elected president emeritus for life.

There was a keen contest between Jacksonville, Delano and Bradentown for the next meeting of the institute in December. The invitation of Jacksonville was finally accepted.

A golf tournament was held on Saturday afternoon at the Kelsey City golf course for the prize of the Palm Beach chapter's golf trophy.

**Missouri**

At the annual meeting of the Missouri Society of Certified Public Accountants at Kansas City, June 14th, the following officers and directors were elected: president, R. S. Wyler; first vice-president, W. F. Scott; second vice-president, G. V. Keller; secretary, F. R. Brodie; treasurer, Edward Fraser; directors, T. C. Hansen, A. J. Saxer and John J. Lang.

**New York State Society of Certified Public Accountants**

Under date of June 29, 1929, the New York State Society of Certified Public Accountants published in its bulletin the report of the president for the fiscal year



1928-29. The report mentions the fact that the present membership of the society is 1,231, and gives a résumé of activities for the past year. The report occupies twenty printed pages.

### **North Carolina Association of Certified Public Accountants**

The 10th semi-annual meeting of the North Carolina Association of Certified Public Accountants was held at Wrightsville Beach, June 28th and 29th.

Charles M. Johnson, executive secretary of the county government advisory commission delivered an address on county government which was followed by general discussion. A banquet was held on the evening of June 28th, at which George E. Dombhart acted as toastmaster and Albert

Cox delivered the principal address. The afternoon was devoted to recreation.

At the business sessions, discussion took place on accountancy legislation, professional ethics, basis of compensation and other matters.

The next meeting of the association, to be held in the fall, will be at Raleigh.

### **Oregon State Society of Certified Public Accountants**

The following officers were elected at the annual meeting of the Oregon State Society of Certified Public Accountants, held at Portland, June 5th: president, Rudolph Erickson; vice-president, P. W. Janney; secretary, Conda J. Ham, and treasurer, Jerome W. Hanks.

## **REVIEWS**

### **WILLIAM H. BELL—"FINANCIAL STATEMENTS FOR THE CREDIT MEN"**

Article published in the *New York Credit Men's Association Bulletin* for April 15, 1929.

Credit men are interested not only in balance-sheets but in income statements, because the operations of a business are no less important than its financial condition at a given date when the question of credit is under consideration, says Mr. Bell. Comparative financial statements are most useful to the credit man, according to the writer, since they show more clearly the trend of the business in all respects and the direction in which it is headed.

The writer proceeds to consider the balance-sheet items in which credit men are most interested—that is, the current assets and the current liabilities. The working-capital ratio is a fair general indication of current financial strength, but it should not be relied upon too much, the writer says. A concern may appear to have a good cash balance, but unless its cash and currently collectable receivables are sufficient to meet its early maturing liabilities, it is headed for trouble. There is no definite formula, Mr. Bell said, for determining the proper proportions of the various classes of assets and liabilities. Each case presents an individual problem, which must be solved by itself in the light of past and present conditions. Investments in affiliated companies should not be regarded as current assets. The credit men should be sure whether or not notes and accounts receivable are current trade obligations and commonly regarded as collectable. Inventories are peculiarly susceptible to manipulation, the writer says, and all the facts relative to this item must be known by the credit man. It is essential to know whether or not any merchandise receivables or other assets are pledged or assigned as security

for liabilities. Current liabilities should be carefully examined to determine whether or not it appears that any creditors might be favored in the event of financial stringency. Mention of contingent liabilities should be looked for on the balance-sheet.

The writer recommends that the income statement be subjected to as critical an analysis as the balance-sheet. The trend of gross sales, the ratio of returns and allowances, the various cost and expense items and the gross and net profits are among the important questions which may be answered by reference to the income statement.

### **EDWARD C. ROMINE—"DOMINANT ISSUES CREATED BY PRESENT COMPETITIVE CONDITIONS IN HOTEL INDUSTRY"**

Address delivered at mid-year meeting of the New York State Hotel Association, Buffalo, New York, May 27, 1929.

The speaker said that competition in the hotel industry is abnormally severe at the present time. Wide publicity may curb foolish over-construction and the law of supply and demand may eventually lead to regained normalcy, but in the meantime hotel owners must increase their efficiency to survive.

He said that the economic life of a hotel is becoming shorter and that depreciation rates based on past experience are inclined to be too low. Hotels can not operate profitably under modern competitive conditions for as long a time as they once could, and it is of the utmost importance that proper provision for depreciation be made on the basis of an estimate of the probable life of the establishment.

Owners of old hotels must operate in such a manner that they may offer value per dollar as great as that of the new hotel. Mr. Romine

described in some detail how an old hotel might profitably accomplish this object.

The speaker recommended merger as an expedient for overcoming strenuous competition.

He also devoted attention to the question of paring down operating costs and showed the part which hotel associations may play in assisting their members.

## EMPLOYMENT EXCHANGE

The Institute has written letters to secretaries of state societies of certified public accountants, drawing attention to the employment exchange and inviting accountants in the respective states to use its facilities. Responses have shown great interest in and general approval of this comparatively recent undertaking of the Institute. Editorial notice of the exchange was published in *The Journal of Accountancy* for July, and it is believed that the number of registrants will increase materially in the near future.

The exchange was inaugurated a year ago and it has been of assistance in a sufficient number of cases to warrant the belief that it fills a need in the accountancy profession. It serves as a confidential channel whereby experienced accountants may communicate with firms in which there are opportunities and as a source of assistants of various types for firms which need them.

Following are descriptions of some of the applicants now available.

No. 51A—Member, American Institute of Accountants, 24 years' experience in public accounting. Has been branch office manager and principal of large firm. Age 45. Salary open. At present resides in New England. Will go anywhere.

No. 53A—Member, American Institute of Accountants, C. P. A. (Mass. and N. C.), 20 years' public accounting experience. Has held position

as branch manager. Age 51. Salary open. Now in North Carolina, prefers Boston, but would go anywhere.

No. 60A—Associate, American Institute of Accountants, C. P. A. (Pa.) 37 years old, 8 years' public accounting experience. Prefers position in upper New York state or in city of New York, but will consider offer anywhere. Salary open.

No. 50A—Associate, American Institute of Accountants, with four and one-half years' public accounting practice, available for temporary staff engagements in New York during summer months. Age 35. Brokerage-accounting experience.

No. 62A—Senior accountant, age 28, married, now in Missouri, wishes staff position in southern California. Three and one-half years' public practice. College degree. Entirely willing to travel. Salary open.

No. 61A—Senior accountant, 31 years of age. C. P. A. (N. Y.) with 6 years' public practice. Now in New York. No objection to travel. Salary \$3,600.

No. 65A—Woman, report reviewer, with eight years' experience with public accounting firms, C. P. A. (Ohio), wishes position in New York. Now in Ohio. Single, age 39, Salary \$200–\$225 a month.

No. 66A—College graduate, age 40, with 17 years' business experience, 1 year as hotel auditor, and four months' public accounting practice, available for staff position in New York, Philadelphia, Baltimore or Washington, D. C., at salary of about \$40 a week.

No. 67A—Semi-senior, age 35, 1½ years' public practice in New York. Will go anywhere. Salary, \$200 a month.

The Institute has made no investigations and disclaims all responsibility.

## OBITUARY

### Adam A. Ross

The death of Adam Averell Ross, former treasurer of the American Institute of Accountants and an early member of the accountancy profession in Pennsylvania, occurred on Saturday, June 15, 1929, after a prolonged illness.

Mr. Ross was the first treasurer of the American Institute of Accountants upon its re-organization in 1916, and occupied the position for three years. He had been an active member of the American Association of Public Accountants, the Institute's predecessor. He was one of the original found-

ers of the Pennsylvania Association of Public Accountants, the Institute's predecessor, in 1897 and continued to take a keen interest in the affairs of the state society during the rest of his life, serving as secretary from 1904 to 1906 and as president from 1906 to 1908.

He was one of the first to receive the C. P. A. certificate of Pennsylvania, his certificate bearing the number 16. He was a member of the state board of examiners from 1911 to 1916. Mr. Ross was one of the organizers and a partner of the firm of Lybrand, Ross Bros. & Montgomery.

Funeral services were held at Ardmore, Pennsylvania, June 18th. The American Institute of Accountants was represented by the president, several past presidents and other officers.

### **L. Hodgson Sapper**

L. Hodgson Sapper of Cleveland, Ohio, died suddenly on June 26th. He was an

applicant for admission to the American Institute of Accountants. He passed the Institute examinations before the Florida state board of accountancy in 1926 and 1927, and the Florida board granted him a C. P. A. certificate in 1927. At the time of his death Mr. Sapper was in the employ of Price, Waterhouse & Co., in Cleveland. He was 39 years of age.

## **HERE AND THERE**

Announcement has been made of the removal of the offices of A. I. Grade & Co., Chicago, to suite 1719-20 Chicago Temple, 77 West Washington street.

Fred. Haberstroh has announced the removal of his office to 1133 Broadway, New York.

Announcement has been made that Howell, Cureton & Co. have acquired the accounting practice of the National Audit Company and will maintain offices at 716-720 New Kanawha Valley Bank building, Charleston, W. Va.

Harold Keene and Robert L. Bright announce the opening of offices at 318-319 Burwell building, Knoxville, Tennessee.

H. C. Anderson, Washington, D. C., has been appointed a member of the chamber of commerce committee on district finance, taxation and assessment.

Reynold E. Blight, Los Angeles, addressed the graduate school of business of Stanford University, May 27th, on the state franchise-tax act. On May 31st, Mr. Blight spoke on civic duty before the Hi Twelve club of Sacramento, and on May 10th he addressed the Pasadena chapter of the D. A. R. on "Is our American heritage in danger?" Mr. Blight has recently been appointed state franchise-tax commissioner to inaugurate a new tax unit relating to banks and corporations.

H. A. Harrison, Los Angeles, has been appointed chairman of the accounting section

committee of the school of public administration of the University of Southern California.

Elmer L. Hatter, Baltimore, recently spoke on opportunities for college graduates in the accounting profession before the advanced accounting class of the University of Maryland.

Thomas W. Hinton, Memphis, addressed the fourth annual interstate audit conference of the Memphis Association of Credit Men in May on "The cost of carrying accounts."

John Raymond Hutson, Baltimore, delivered an address entitled "The trust company audit—a practical working programme," before a meeting of the Maryland Association of certified public accountants held at the Emerson hotel, Baltimore, May 14th.

R. C. Lloyd, chairman of the tax committee of the New Orleans Association of Commerce, has been instrumental in plans for the inauguration of a city manager for New Orleans.

The *New York Credit Men's Bulletin* for May contains an article by A. F. Makay, New York, on the new C. P. A. law of New York.

On April 9th William McAdam of Seattle addressed members of Beta Alpha Psi at the University of Washington on "What an audit report should contain," and on May 9th Mr. McAdam delivered an address on the same subject before a meeting of cost accountants.

# BULLETIN

OF THE

## AMERICAN INSTITUTE OF ACCOUNTANTS

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SERIES B, No. 64

### ANNUAL MEETING, AMERICAN INSTITUTE OF ACCOUNTANTS

The unusually large number of hotel reservations for the annual meeting of the American Institute of Accountants, to be held at the Carlton hotel, Washington, D. C., September 16 to 19, 1929, and the promises of British and Canadian societies of accountants to send representatives seem to assure a noteworthy attendance at this year's meeting.

The committee on meetings has been devoting a great deal of time and thought to the effort to make the sessions thoroughly stimulating and pleasant to those who attend.

While titles of all the addresses to be delivered at the meeting may not yet be announced, the subjects selected are believed to be of the utmost interest to professional accountants, and those who have been invited to read papers and to lead discussion of them will speak with authority on the topics with which they deal.

The committee on meetings has drafted the following tentative programme, which is, of course, subject to change. All meetings will take place at the Carlton hotel.

#### *Monday, September 16th:*

- 9:00 a.m. Meeting of executive committee
- 9:00 a.m. Meeting of committee on professional ethics
- 9:00 a.m. Meeting of board of examiners
- 10:00 a.m. Meeting of council (executive session)
- 12:30 p.m. Meeting of board of trustees, American Institute of Accountants Foundation (executive session)

- 1:30 p.m. American Institute of Accountants golf tournament, Columbia country club. Competition for Missouri Golf Trophy between teams representing Institute chapters and state societies
- 6:30 p.m. Dinner, Columbia country club
- 8:00 p.m. Theatre party, at Fox theatre, Washington, D. C.
- 8:30 p.m. Meeting of members of boards of examiners

#### *Tuesday, September 17th:*

- 10:00 a.m. Opening session  
Invocation
- 10:15 a.m. Welcome by president of Institute to visiting accountants and other guests  
Responses
- 11:00 a.m. Reports of council and committees  
Report of auditors
- 11:30 a.m. *The Accountant and the Lawyer in Tax Practice*, by Charles R. Trobridge, New York  
Discussion
- 12:30 p.m. Meeting of American Institute of Accountants Foundation (executive session)
- 1:00 p.m. Adjournment for luncheon
- 2:00 p.m. Business session  
Selection of place for annual meeting in 1930  
*Organization of an Accountant's Office*, by George S. Olive, Indianapolis  
Discussion
- 4:00 p.m. Sightseeing by airplane, Hoover Field (cost per flight, \$2.50)
- 6:30 p.m. Moonlight sail on the Potomac to Mt. Vernon and return. Dinner and dancing on boat. (In the event of rain a dinner-dance will be held at the Carlton hotel)

## Bulletin of American Institute of Accountants

### Wednesday, September 18th:

- 9:30 a.m. Business session  
Election of officers
- 12:00 m. Reception at White House (tentative)
- 2:00 p.m. Paper and discussion
- 3:15 p.m. Sightseeing trip by motor bus to  
Masonic Memorial, Alexandria,  
and Washington's Home, Mt.  
Vernon
- 7:45 p.m. Annual banquet
- 11:30 p.m. Dancing at Madrilion restaurant

### Thursday, September 19th:

- 9:00 a.m. Meeting of council (executive session)
- 1:00 p.m. Golf at Columbia and Chevy Chase  
country clubs

The committee has fixed the individual registration fee at \$12.00. This fee will pay for the boat trip, including dinner and transportation to and from the pier; the annual banquet; transportation to and from golf club on the day of the tournaments; teas, bridge parties and tours for ladies; and a sightseeing trip about the vicinity of Washington. The cost of the theatre party, airplane rides, dinner at country club and dancing at the Madrilion restaurant will be extra charges to those who participate in these events. The entrance fee for the golf tournaments will be \$6.00.

The personnel of the committee on meetings is as follows:

Wayne Kendrick, *Chairman*,  
Rust Building, Washington, D. C.  
James J. Hastings (in charge of golf),  
Federal Trust Building, Newark, N. J.  
G. Harvey Porter,  
Lexington Building, Baltimore, Md.

### Nominations for Institute Offices

The report of the committee on nominations of the American Institute of Accountants has been sent to members, with the official call for the annual meeting to be held September 16 to 19, 1929, at Washington, D. C.

The report recommends the election of the following members to the respective offices:

#### *President:*

Frederick H. Hurdman, New York

#### *Vice-presidents:*

Stanley G. H. Fitch, Massachusetts  
Overton S. Meldrum, Kentucky

#### *Treasurer:*

Andrew Stewart, New York

#### *Council for five years:*

John D. Cherrington, Ohio  
Charles B. Couchman, New York  
Lewis G. Fisher, Rhode Island  
John M. Gilchrist, Nebraska  
Elkin Moses, Louisiana  
Albert G. Moss, Texas  
Walter Alexander Musgrave, Connecticut

#### *Council for three years (to fill vacancies):*

Wayne Kendrick, District of Columbia  
J. E. Sterrett, New York

#### *Auditors:*

Alexander R. Grant, Illinois  
J. K. Mathieson, Pennsylvania

The members of the committee on nominations, all of whom have signed the report, are William Jeffers Wilson, Pennsylvania; James M. McConahey, Washington; B. W. Bours, California; Percival F. Brundage, Massachusetts; Allan Davies, New York; Howard E. Murray, Ohio; and George Treadwell, Louisiana.

### Adam A. Ross

At a meeting of the council of the Pennsylvania Institute of Certified Public Accountants, July 12, 1929, the following preamble and resolution were adopted:

WHEREAS, by the death of Mr. Adam Averell Ross on June 15, 1929, the members of the Pennsylvania Institute of Certified Public Accountants are called upon to mourn the loss of an esteemed co-worker and a loyal fellow-member.

As one of the founders in 1897 of the original Pennsylvania Association of Public Accountants he aided in building up the profession in Pennsylvania. As secretary of the Pennsylvania Institute from 1904 to 1906, and as its president from 1906 to 1908, and for years as a member of its council, he served the organization ably, loyally and successfully.

As a member of the state board of public accountant examiners from 1911 to 1916, he devoted his time and his ability untiringly to the upbuilding of a high standard of professional examination in this commonwealth.

Now therefore be it RESOLVED, that the council desires to express its high appreciation of his worth and character and of his professional attainments. As a man he held the high respect and love of those with whom he came in contact; as an associate in all lines of professional endeavor it was ever a pleasure to work with him.

## Bulletin of American Institute of Accountants

And be it further RESOLVED, that we tender to the widow and family of our departed friend, Adam A. Ross, our sincere sympathy in their great loss and, as a mark of our high regard for him as a fellow worker, it is hereby directed that these resolutions be inscribed in the minutes of the Institute and that a copy thereof be sent to Mrs. Adam A. Ross.

(Signed) OTTO G. RICHTER, *President*  
ROBT. B. VOLLUM, *Vice-president*  
ROBERT J. BENNETT, *Secretary*  
HARRY NESS, *Treasurer*

*Members of Council:*  
ERNEST CROWTHER  
FRANK WILBUR MAIN  
GARDNER W. KIMBALL  
CHARLES S. ROCKEY  
GEORGE WILKINSON

### Annual Meeting of the Dominion Association of Chartered Accountants

Following is the programme for the annual meeting of the Dominion Association of Chartered Accountants to be held at Vancouver, B. C., August 19th to 23rd, inclusive:

#### *Monday, August 19, 1929:*

8:00 p.m. Informal reception at Hotel Vancouver

#### *Tuesday, August 20, 1929:*

9:30 a.m. Meeting of council  
10:30 a.m. Address of welcome  
Appointment of committees:  
    (a) Registration (confirmation)  
    (b) Reports of constituent societies  
Interim report of secretary-treasurer  
Appointment of auditors  
Reports of constituent societies  
12:30 p.m. Adjournment  
1:00 p.m. President's luncheon to Dominion council  
2:30 p.m. Reports of committees  
    (a) *Canadian Chartered Accountant*  
    (b) Legislation and general purposes  
    (c) Uniformity of standards  
Discussion  
5:30 p.m. Adjournment

#### *Wednesday, August 21, 1929:*

9:30 p.m. Report of Committee on "Reports of constituent societies"  
Discussion  
Appointment of committees:  
    (a) *Canadian Chartered Accountant*  
    (b) Legislation and general purposes  
    (c) Uniformity of standards  
10:30 a.m. Address: "What is to be the future of the Dominion Association?"—George E. Winter  
Discussion

12:15 p.m. Adjournment  
12:30 p.m. Leave for luncheon at Jericho country club as guests of the British Columbia Institute  
2:00 p.m. Golfers: Dominion v. British Columbia for challenge cup  
Non-golfers: Motor trip  
7:30 p.m. Dinner-dance at Royal Vancouver yacht club

#### *Thursday, August 22, 1929:*

9:30 a.m. Unfinished business  
Paper: Speaker and subject to be decided on  
Discussion  
12:00 m. Adjournment  
12:15 p.m. Final council meeting  
1:30 p.m. Golf, etc.  
7:30 p.m. Annual banquet at Hotel Vancouver (dress optional)  
Introduction to the president

#### *Friday, August 23, 1929:*

8:00 a.m. Breakfast at Empress hotel, Victoria  
9:00 a.m. Motor trip—Malahat drive, Mill bay and Mr. Butchart's gardens  
Golf at Colwood golf and country club  
7:30 p.m. Dinner at Empress hotel  
(Victoria programme subject to variation)

### Election of Applicants

In the absence of protest, the president of the American Institute of Accountants on August 1st declared elected the following applicants for admission to the American Institute of Accountants as members and associates and for advancement from associate membership to membership. The election of these applicants had been recommended by the board of examiners and was effected by mail vote of the council.

#### *Advanced to membership:*

Abe M. Calmenson, New York  
Harvey C. Daines, Chicago  
Herman E. Muller, New York

#### *Admitted as members:*

Don D. Battelle, Dayton, Ohio  
Harold E. Bischoff, New York  
Eric A. Camman, New York  
Chester W. DeMond, New York  
Francis C. Derby, Burlington, Vermont  
Schuyler Dillon, Boston  
Paul O. Dittmar, Chicago  
William Eyre, New York  
William A. Helm, St. Louis  
Edwin J. Israel, New York  
Arthur Jones, Okmulgee, Oklahoma  
Robert S. Kirkland, San Francisco  
William C. Kirkpatrick, New York  
Peter F. Lynch, New York

*Admitted as associates:*

Earl Beaty, Berrien Springs, Michigan  
Robert I. Fletcher, Poughkeepsie, New York  
Clyde C. Hale, Chicago  
Laurence H. Jones, Chicago  
J. Ralph Priebe, Jr., Chicago  
Donald Lynn Trouant, Boston  
Nelson L. Whyte, Newark, New Jersey

### **Bureau for Placements**

As evidence of the satisfactory results of employment of college graduates as staff assistants, the following letter from a prominent firm is of interest:

*Gentlemen:*

We would like to secure from ten to fifteen men from the placement service this year for our New York office. We will want all of these men to commence on September 1st.

The men we received from the bureau last year, whose names are mentioned in your letter of April 12th, developed so well that we felt it was only fair to increase their salaries to \$1,800 a year beginning April 1, 1929. Do I need to give you any stronger evidence of their satisfactory services?

Sincerely yours,

Most of the applicants mentioned in the letter were employed in the fall of 1928, and consequently the salary increase came after only about six months of service. The initial salary of men employed through the bureau for placements of the Institute is \$1,500 a year.

The latest report of the bureau shows that 186 applications have been received since January 1, 1929, from members of the class of 1929 in colleges in all parts of the country. About one-third of the applications are in the hands of accounting firms which are prospective employers, and 48 are under investigation by the committee.

Thirty-five men have been placed since the beginning of the year.

### **Bankers Congratulate Authors of "Verification of Financial Statements"**

At the annual meeting of the Robert Morris Associates held at Minneapolis, June 24th, the following resolution was adopted:

RESOLVED, that the Robert Morris Associates in convention assembled commend and congratulate the successful activity of the committee of the American Institute of Accountants for its splendid report, now in the hands of the federal reserve board, indicating proper accounting practice in the

preparation of balance-sheets under the title of "Verification of financial statements;" and be it further

RESOLVED, that the secretary be instructed to send a copy of this resolution of appreciation to each member of this committee as follows:

ARTHUR W. TEELE, *Chairman*  
WILLIAM B. CAMPBELL  
W. SANDERS DAVIES  
F. H. HURDMAN  
WILLIAM H. WEST  
JOHN R. WILDMAN

### **"Verification of Financial Statements" Reprinted in English Magazine**

*The Incorporated Accountants' Journal* for July, 1929, reprints the complete text of the document "Verification of financial statements" recently published by the federal reserve board. In an editorial in the same issue of the magazine the history of the document is outlined and the names of the members of the committee of the American Institute of Accountants which prepared it are given.

### **British Press Comment on "Verification of Financial Statements"**

*The Financial Times*, London, on June 15th published an article on the document entitled "Verification of financial statements" of which the American Institute of Accountants is author and the Federal Reserve Board is publisher. The newspaper item is of interest to American accountants because it compares parts of the instructions with current British practice. *The Financial Times* says, in part:

This report, to put it briefly, is a guide to auditors as to the best methods to pursue in examining the accounts of companies and firms so as to ensure accurate and reliable certificates. The nucleus of the report was published ten years ago by the federal reserve board. The idea did not originate with the Institute of Accountants, but with the federal trade commission, which very naturally went to the Institute to get its notion carried out. The resulting memorandum was then put into circulation by the reserve board and has since formed a working basis for accountants periodically dealing with the affairs of business undertakings. The new report is the original memorandum revised in the light of the past decade's experience, and with the assistance of criticisms and suggestions made in the interval. It is now officially adopted by the Institute and is certainly, as authoritatively described, "the most representative pronouncement upon the vital question of accounting procedure" which has been issued in the United States. Its in-

terest to us is the degree to which it shows accountancy methods in the two countries approximate and the influence exerted on the financial publicity of industrial corporations.

Generally speaking, there can be no real divergence between accountancy principles in America and Great Britain, or, for the matter of that, in any other countries. Such principles are of universal application, and points of departure can only be sought in subsidiary details. Thus one great difference between ourselves and the States is undoubtedly the greater publicity and detail given by the accounts of many companies in America. This is clearly the outcome of the policy pursued by the Institute of Accountants, and, it is to be noted, has been anticipated in certain respects in the form rendered obligatory by the latest companies act here. A glance at the model abstract attached to the report and that used by numerous corporations in America supplies the most convincing proof of the signal influence exerted by the Institute in bringing about wider publicity and more searching particularity in the accounts presented by joint stock concerns to their shareholders and the investing public. Much of the report inevitably deals with purely technical matters, but there are a variety of items the importance of which is as apparent to the layman as to the expert, and in regard to some of these there is far more responsibility cast on the auditor in the States than would seem to be the case here. To give one or two examples: Where the total market value of securities is less than the book value a reserve for loss has to be set up in the balance-sheet. Our own auditors would probably be content with pointing out the depreciation, but would not necessarily demand the creation of an offsetting reserve.

Then again, in appraising stocks, since the accuracy of profit and loss is absolutely dependent upon the correctness of such appraisalment, the report throws on the auditor full responsibility for clerical accuracy of computations, footings and recapitulations and for the price basis adopted, but gives him leave to rely on the officials for particulars of quantity, quality and condition. We would not be sure that here the obligation on the auditor is generally so extensive; usually there is rather too great a tendency to fall back on officials for most of the particulars. Another matter on which great stress is laid are contingent liabilities, information respecting which is indicated under no less than half a dozen heads. The model form of certificate is very similar to our own, but the model balance-sheet and profit-and-loss statement are far more detailed than those usually to be found in use in this country. It does not follow of necessity that the form insisted on by the American Institute is that put forth to the public, but in many instances in actual practice it is and investors are duly benefited in being made thoroughly aware of the financial state of the undertakings in which they are either already, or desire to become, interested. A considerable number of our company profit-and-loss statements when they are not missing altogether take on the most meagre complexion. By contrast, the American model not only provides for gross and net profit, but also for gross sales. What is both an important and a useful supplementary stipulation is that if a profit-and-loss statement is prepared for more than one year it

should be set up in comparative form. Such a report as that of the special committee of the American Institute, officially promulgated, can hardly be taken as a convenience for mere private firms, any more than was intended to be its original inception by the federal trade commission. It is plainly designed to standardize public accountancy practice, and as such must be taken into consideration here in any contrasting statement of the relative efficiency of audits in America and Great Britain.

### **New Accountancy Law in Norway**

An accountancy law known as the "state authorized auditors act" has recently been passed in Norway.

It provides that persons conforming with the provisions of the act may use the designation "state authorized auditor" although any person may be permitted to engage in the occupation of auditor. The requirements for the license include five years' practice and passage of an examination in auditing, bookkeeping, theory of accounts, commercial arithmetic and commercial law, except that the board of auditors may waive the examination in cases of applicants who in other ways prove themselves properly qualified. Applicants must be at least twenty-seven years of age and be of good moral and financial standing. Upon receipt of his license every state authorized auditor must make affidavit that he will fairly and conscientiously fulfil his duties.

Rules will be prescribed concerning the obligations of state authorized auditors in the performance of their practice. The authorities may call for explanations if they have reason to believe that the rules are not complied with in any case or that the auditors concerned have acted in contravention of their affidavits. Licenses may be withdrawn for cause after due hearing. The following section of the new law is noteworthy:

"No state authorized auditor shall be allowed to receive or solicit any profit from or through his position as such beyond the agreed remuneration. He shall not directly or indirectly be in a competing relation to the business the auditing of which he undertakes; nor must he carry on any business transactions with it. He shall not be a member of the company or firm of which he undertakes the audit, nor in any other way take part in the management thereof. He shall not act as auditor where any of his nearest relations partake in the management. The ministry may, in particular circumstances, dispense with the operation of this clause."

The act took effect February 22, 1929.



### **California Accountants Coöperate with Corporation Department**

Announcement has been made that the commissioner of corporations of the state of California has completely revised the rules of the department with the assistance of members of the California State Society of Certified Public Accountants and attorneys and bankers of the state. It is said that the rules were redrafted six times as a result of conferences with committees of representatives of the various professions. Definite rules on financial statements of corporations are largely the result of the collaboration of California accountants. The new system of showing financial structure of corporations applying for permits will require applicants to segregate individual items of assets and liabilities, in order to obviate possible confusion resulting from grouping such items.

Appraisals, under the new rules, will be conducted by appointees of the commission and will not be disclosed to the applicant, which will pay the fee direct to the commission.

A circular letter from the president of the California State Society of Certified Public Accountants, dated July 2nd, advises members that the corporation commissioner and the franchise-tax commissioner of the state have recently accepted offers of coöperation of the society in matters of accounting procedure which may arise from time to time.

### **State Board Induces Proper Accounting Procedure in Governmental Audit**

As a result of efforts of the state board of accountancy of Arkansas specifications for an audit of the records of the state highway department in accordance with an act of the 1929 legislature have been changed to avoid certain undesirable factors which were considered contrary to good practice.

The act provided for audit of the books of the state highway commission by three firms of certified public accountants under two-year contracts stipulating that all auditors would be changed once a year. The reports were to be signed by the three accounting firms as "associated certified public accountants."

The state board of accountancy issued a statement to the press calling attention to rule No. 6 of the rules of professional conduct of the American Institute of Accountants, which relates to the certification of accounting statements by accountants who have not themselves conducted the investigation. The board expressed disapproval of the provision of the act in question and held a series of conferences with state officers charged with the initiation of the audit. After several firms of accountants had refused offers of contracts for the audit as provided in the act of the legislature, state officers indicated that they would accept proposed specifications prepared by members of the state board of accountancy, providing for conduct of the audit by a single firm.

The matter received editorial comment in *The Journal of Accountancy* for July, 1929, and mention is made of this in a newspaper report of the conclusion of the affair. An item in the *Arkansas Gazette* of July 14th reads in part as follows:

"Specifications for an audit of the state highway department records are being prepared for submission to certified public accountants and bids will be sought probably within the next two weeks...

"After a series of conferences between state officials and accountants, including members of the state board of accountancy, this board furnished proposed specifications for the audit several weeks ago. It was indicated that the state officials will use these suggestions as the basis for their specifications on which bids will be asked....

"This is not in accord with provisions of act No. 167 of 1929, which stipulates that the five constitutional officers shall employ three firms of accountants to conduct a continuous audit, each firm furnishing one accountant. Contracts were tendered three firms soon after the close of the legislature, but they were rejected. Mr. Stewart and Mr. Findley, as officers of the state board of accountancy, attacked the act....

"Act No. 167 receives unfavorable criticism in the July issue of *The Journal of Accountancy*, official publication of the American Institute of Accountants. Explaining the provision for three firms to make a continuous audit the publication says that 'There are other sections of the act which are almost equally ridiculous.' The state board of accountancy is commended for publicly disapproving the measure."

### **Certified Statements Recommended to Credit Men**

An article in the July, 1929, issue of *Credit Monthly* advises credit men to request finan-

cial statements certified by competent public accountants. The author of the article says:

"There are three fundamental rules which must be followed to secure the most possible from the analysis of financial statements.

"In the first place the credit man should make sure that the statements presented for analysis are reliable. If the prospective debtor has a competent accountant or auditor in charge of its books, statements prepared by him may be accepted. In many cases statements certified by reliable public accountants should be requested.

"In the second place, emphasis should be placed upon the obvious but important principle that the analyst should be familiar with the proper nomenclature and content of the various elements of financial statements. Such knowledge would lead not only to better analysis of statements presented but would emphasize also the importance of the first principle, securing reliable statements.

"The third fundamental principle in statement analysis is that it should be a continuous and follow-up process. The credit man should not be satisfied with getting a statement from each prospective debtor at the time of application for the credit. He should require periodic statements during the entire period over which the credit is extended. Much information can be secured from a study of the trends of a business."

### **University Coöperates with Hotel Accountants for Better Accounting**

On June 22nd a meeting of the Ohio Hotels Association, in conjunction with representatives of the college of commerce and business administration of The Ohio State University, was held at the university, and as a result of the conference it is believed that the bureau of business research of the university may coöperate with Ohio hotels in the collection of comprehensive operating statistics. The meeting was arranged by a programme committee composed of J. B. Heckert, an associate member of the American Institute of Accountants and acting chairman of the university accounting department, J. I. Clark and Ralph Hitz, chairman.

The meeting opened at 10 a.m., when P. A. Line, president of the Ohio Hotels Association, explained the purposes of the conference. Professor Heckert, who was to act as presiding officer of the conference, was then introduced. Mr. Hitz, managing director of the Hotel Gibson, who is also chairman of the standardized accounting committee of the American Hotel Association, delivered an address on his conception of a thoroughly satisfactory hotel ac-

countant. "Why I do not use standardized accounting" was the subject of an address by W. H. Vallette, comptroller of the Hotels Blackstone and Drake in Chicago.

After luncheon F. Harold Van Orman, president of the Fred Van Orman Hotel Company, Evansville, Indiana, spoke on the importance of uniform accounting, and Harold Benington, chairman of the board of examiners in accountancy of the state of Illinois, delivered an address on the relation of the hotel auditor to the public accountant. Paul Simon spoke on "Managerial use of standardized ratios."

The meeting closed with discussion of possible formation of an accountants' division of the Ohio Hotels Association.

### **Uniform Accounting for Colleges and Universities**

At a meeting of the Association of University and College Business Officers, held at Urbana, Illinois, on May 16, 17 and 18, 1929, the president of the association was authorized to appoint two members to confer with two members each from the southern and eastern college business men's associations on the subject of uniform accounting for educational institutions. The six representatives of the three associations are to form a committee with A. J. Klein of the United States bureau of education as chairman. Consideration is to be given by this committee to the possibility of establishing uniform accounting and uniform financial reports for colleges and universities.

### **Railway Accounting Officers Association**

The forty-fifth report of the Railway Accounting Officers Association has recently been published. It is a bound volume containing 348 pages and includes an account of the proceedings at the Cleveland meeting of the association, May 1, 2 and 3, 1929.

### **Remuneration in Accountancy**

A graph depicting the median salaries of 7,000 college graduates, which is part of a document on the choice of an occupation published by the department of personnel study at Yale University, offers an interesting comparison with estimates of earnings

in the public accounting profession published by the special committee for placements of the American Institute of Accountants. The Yale publication has divided the 7,000 objects of its study into two groups: those in the "upper half of the salary scale" and "those less successful." The graph shows that the median salary of the successful group is about \$1,500 at the beginning. Five years after graduation it is about \$3,200; ten years after graduation, about \$5,000, and twenty years after graduation, about \$8,000.

Assuming that college graduates selected by the bureau for placements as satisfactory applicants for staff positions in public accounting firms are of the type corresponding to those in the upper half of the salary scale in this study, the figures published by the Institute's special committee for placements compare most satisfactorily with those just given. College men who obtain positions through the bureau receive \$1,500 a year to start. By the time they are senior accountants, which should occur after they have had five years' experience, the committee says that they may expect from \$2,700 to \$5,000, which averages \$3,850. Supervisors, or staff accountants of equal rank, receive from \$5,000 to \$10,000.

A fair comparison ceases at this point, because after passing the position of supervisor most accountants either eventually obtain a partnership in the firm by which they are employed or enter practice on their own account, and their incomes are no longer salaries. The study published by Yale University deals only with salary progress.

The Yale bulletin contains, besides general comments on college graduates in the business and professional world, chapters devoted to specific outlines of various occupations. The matter contained in the chapter on accountancy is derived largely from the Institute's pamphlet, *Accountancy Is a Career for Educated Men*.

### **National Tax Association Meets in September**

The twenty-second annual conference of the National Tax Association will be held at Saranac Inn, New York, September 9 to 13, 1929.

### **American Bankers Association to Meet in September**

The annual convention of the American Bankers Association will be held in San Francisco, September 30 to October 3, 1929.

### **Financing Trade Associations**

Investigation of methods of administering financial affairs of trade associations is being conducted by the trade-association department of the United States Chamber of Commerce. Replies from executives of trade associations show wide divergence in the items of financial data published by various associations, some offering only scanty information to members, while others publish complete statements and reports. A circular letter recently issued by the chamber of commerce quotes the following statement of a president of one association:

"The . . . . ., being a business organization, conducts its affairs in a business-like manner. Its fiscal year closes. . . . ., after which its books and records are turned over to a firm of certified public accountants and a complete audit is made. This audit, together with a detailed financial report covering all transactions had during the year, is published and circulated to the members thirty days prior to the annual convention.

### **Trade Associations and Mergers**

A statement of the possibilities of trade associations as a substitute for industrial mergers was made in a recent address by Virgil Jordan, chief economist of the National Industrial Conference Board. Mr. Jordan said that it can not be assumed that the merger has proven itself a cure-all for undesirable conditions facing American business at the present time. The principle of flexibility, permitting adjustment to changing market demand, he said, appears to have been more successfully carried out through the efforts that have been made to improve and strengthen trade organizations' work in industry. Mr. Jordan continued:

Personally I should be far more inclined to put my faith in the capacity or possibilities of improved trade-organization activity in adjusting production to demand in any field, than I would to put my faith upon the merger principle as a fundamental principle in meeting the problem.

We have developed in the past five years an enormously strengthened and much stronger type of trade organization—a much more active and

aggressive kind of trade organization. In some of the fields where this problem of excessive competition, of cut-throat competition, of over-production has been most serious, as in the textile field, we have developed in American industry a new type of trade organization represented by the so-called "institutes"—like the Cotton Textile Institute—which have replaced or taken over some of the functions which the older trade organizations did not perform....

That effort to broaden the market for an older type of product, to develop new products and new uses for old products, is one of the important functions of these invigorated, rejuvenated trade organizations, and in many industries we in the National Industrial Conference Board, who are so closely in touch with every important industry, clearly see that the effort is bearing fruit in a better coördination between production demand, in increased stabilization of the market and in better profits for the average independent concerns in the industry....

So, in conclusion, I would like to emphasize again that although in some instances, in some fields the merger movement has demonstrated a considerable degree of success in meeting these difficult conditions of modern business competition, the real promise for the future lies rather in the direction of strengthened and expanded trade association work.

### **Connecticut State Board of Accountancy**

The Connecticut state board of accountancy advises that C. P. A. certificates have been issued to the following persons as a result of the May, 1929, examinations: Wilfrid J. Bissonnette, Edward Cohen, Arthur U. Elmer, B. J. Neff and William A. Smick.

## **STATE LEGISLATION**

The legislature of Wisconsin was expected to adjourn August 12th. The Mississippi legislature is now in special session. The third special session in Texas adjourned July 20th. A special session of the New Jersey legislature has been called for August 16th. It is not considered likely, however, that bills of special importance to accountants will be introduced in these states.

The only important accountancy bill now under consideration is the regulatory measure in Georgia. This bill, senate bill No. 10, was reported favorably in the house on July 30th after a second reading.

Georgia house bill No. 599, introduced July 24th, provides that boards of commissioners of certain counties shall appoint auditors.

## **NEWS OF LOCAL SOCIETIES**

### **California State Society of Certified Public Accountants**

#### **LOS ANGELES CHAPTER**

J. M. Sternhagen of the United States board of tax appeals, in session at Los Angeles, was a guest at the regular monthly meeting of the Los Angeles chapter of the California State Society of Certified Public Accountants held at the Los Angeles athletic club, July 8th. Mr. Sternhagen spoke on coöperation between the board and practitioners with a view to facilitating trials of tax cases.

#### **Maryland**

At the monthly meeting of the Maryland Association of Certified Public Accountants

held in June, 1929, the following were elected to office to serve for the ensuing year: president, Harlan Johnson; vice-president, Julian A. Jenkel; secretary, J. Raymond Hutson; treasurer, Charles W. Smith. Board of trustees: J. L. Benson, C. W. Burton, Robert Iglauer, A. L. Tinsley. Membership committee: H. C. Logue, J. B. MacNab, F. E. Reuwer. C. C. Croggon was elected auditor.

### **North Carolina Association of Certified Public Accountants**

At a banquet held June 28th as part of the convention of the North Carolina Association of Certified Public Accountants at Wrightsville Beach, George E. Wood, who

had expressed a desire to retire from the position of secretary which he had held for ten years, was presented with a gold watch as an evidence of appreciation of his services.

The watch was engraved to show that he had been made a fellow member of the association for life.

Mr. Wood had served as president of the association for one term in addition to his decade of service as secretary. Neil S. Zeigler succeeds Mr. Wood as secretary-treasurer of the association.

#### MEMBERS ATTEND CONFERENCE ON INCOME TAXATION

A number of members of the North Carolina Association of Certified Public Accountants attended lectures on the federal

income-tax law at the University of North Carolina, Chapel Hill, on July 13th. The speaker was P. H. Phillips, a member of the United States board of tax appeals, who is giving a course in federal income taxation at the law school.

#### Pennsylvania Institute of Certified Public Accountants

##### PITTSBURGH CHAPTER

A luncheon, at which Ernest Crowther acted as chairman, followed by an afternoon of golf at the Chartiers Heights country club, constituted the programme of a meeting of the Pittsburgh chapter of the Pennsylvania Institute of Certified Public Accountants, July 9th.

### COURT DECISIONS

#### Auditor's Report Constitutes Prima-Facie Evidence

The report of an auditor appointed by a court to make preliminary investigation of the net profits of a company in an action to recover profits on an insurance policy is prima-facie correct and accurate, according to the circuit court of appeals for the third circuit. This pronouncement was made in an opinion delivered by Judge Davis on five cases, considered jointly, which had been appealed from the district court for the district of Delaware, the first of which was the *Newark Fire Insurance Company v. Bisbee Linseed Co.*

In proving the loss sustained by the insured many books, ledgers, journals, books of sales contracts, orders, etc., were produced, and it appeared from the cross examination that the facts, figures and calculations were too long and too complicated to present to a jury without the assistance of an auditor. The trial judge, therefore, appointed an auditor whose report he announced as prima-facie correct. The opinion cites the following authority:

Where the accounts are complex and intricate, or the documents and other evidence voluminous, or where extensive computations are to be made,

it is the better practice to refer the matter to a special master or commissioner than for the judge to undertake to perform the task himself. *Heirs of P. F. Dubourg de St. Colombe v. United States*, 7 Pet. 625; *Chicago, Milwaukee & St. Paul Ry. Co. v. Tompkins*, 176 U. S. 167, 180. *Ex parte Peterson*, 253 U. S. 300, 313.

Appellant questioned the propriety of the court's charge to the jury with reference to the auditor's report, but the appellate court affirmed the action of the trial judge.

#### Book of Accounts Is Prima-Facie But Not Conclusive Evidence

A book of accounts when admissible is prima-facie, but not conclusive, evidence of transactions properly recorded therein. This is a statement of the district court of appeal, second district, division 1, California, in the case of *MacDiarmid v. McDewitt*, 275 P. (No. 2), 501. The court said that the degree of credit to be given to books of account as evidence is ordinarily a question for the jury and is to be determined by the general appearance and condition of the books, the manner in which they were kept, the circumstances in which the entries were made, and any other fact or circumstance in evidence bearing upon the question.

Chester P. Child announces the removal of his Waterbury, Connecticut, office to 174 Grand street.

Charles A. Lynch & Co. announce the opening of an office at 405 Builders' Exchange building, St. Paul, Minnesota.

REVIEW

WALTER L. MORGAN — "ACCOUNTING, MANAGEMENT AND COSTS FOR AIRPORTS"

Article published in *Airports*, July, 1929.

The writer says that a proper accounting system is absolutely necessary in administration of an airport, which is a new industry with strange problems confronting it and many experiments to be made. Its endurance will depend upon the ability of the management to interpret the results of its activities correctly, to plan new developments, to remedy defects and to strengthen weaknesses. A large investment in construction and equipment is necessary and sources of income of sufficient amount to provide a fair return must be perceptible. The writer says that it is probable that public attendance will diminish as time goes on and that receipts from admissions to airports will, therefore, decrease. He mentions the present tendency to develop airports as recreation centers as well as flying fields, with swimming pools, restaurants, parks, etc., and says that in such an organization each unit must be controlled and its potential profits accurately determined. Originally airports were generally leased at nominal rental but at present there is a tendency for municipalities to charge rentals commensurate with the investment.

The first concern of management in airport development is construction cost, and the writer recommends a definite construction budget approved in its entirety before any work begins. He outlines the items which should be included in such a budget and suggests that a sound classification of construction costs might comprehend the following:

Land and leaseholds (classified by sections):

Improvements to field:

1. Grading and clearing
2. Fertilizing
3. Seeding and development of sod
4. Landscaping and hedges
5. Drains and catch basins
6. Roads
7. Sidewalks and curbs
8. Runways, take-off strips
9. Approaches to runways
10. Aprons and taxi strips
11. Fencing
12. Power lines
13. Lighting
14. Parking space

Buildings:

Hangars  
Administration buildings  
Ticket and waiting room  
Repair shops  
Garage  
Showrooms and stores  
Gasoline and pump house  
Public toilets  
Refreshment stands  
Restaurant  
Transformer house  
Central heating plant  
Lean-to  
Roadhouse  
Swimming pool, parks, etc.  
Gas and oil storage structures

Equipment (to be classified in detail):

Hangar  
Administration building  
Swimming pool  
Shop equipment  
Furniture and fixtures  
Fire extinguishers  
Ambulance  
Trucks and autos and tractors  
Water and sprinkler system  
Underground conduits  
Booths  
Weather equipment  
Grass cutters and rollers  
Field lighting equipment  
Gas and oil equipment  
Traffic control system  
Telephone and telegraph system, etc.

General:

Architect fees  
Engineering fees  
Superintendence  
Interest during construction  
Miscellaneous

The construction ledger should also record depreciation on each general unit of property. This is a necessary procedure as the rate of depreciation and obsolescence will naturally be very high in this industry for a long time to come, the writer says.

J. D. Hightower, Greensboro, North Carolina, announces the consolidation of his accounting practice with, and the change of the firm name to A. M. Pullen & Co.

Hood & Strong announce the opening of an office in the Van Nuys building, Los Angeles.

Announcement has been received of the dissolution of the practice of Kerman and Kerman, Fort Wayne, Indiana. The practice formerly conducted by that firm has been acquired by George B. Buist.

Edmund R. Stewart of Baltimore has been appointed state auditor of Maryland.

## EMPLOYMENT EXCHANGE

The experience of the Institute's employment exchange during the past few months seems to indicate either that the seasonal fluctuation in accountancy practice is correcting itself or that accounting firms are gradually acquiring the habit of employing permanent assistants during the quieter months in order that their staffs may be adequate to undertake the increased volume of work usual in the fall and winter. The exchange has been placing applicants at frequent intervals since April first, and the requests for assistants have continued to be more numerous than the properly qualified men who have registered for employment. Such requests have come not from New York alone, but also from New England, the south, the middle west and the Pacific coast.

Probably because of publicity lately given the exchange through state societies of accountants and in *The Journal of Accountancy* the number of registrants has been increasing more rapidly during the past few weeks.

Following are the qualifications of some of the applicants now available:

- No. 51A—Member, American Institute of Accountants, 24 years' experience in public accounting. Has been branch-office manager and principal of large firm. Age 45. Salary open. At present resides in New England. Will go anywhere.
- No. 53A—Member, American Institute of Accountants, C. P. A. (Mass. and N. C.), 20 years' public accounting experience. Has held position as branch manager. Age 51. Salary open. Now in North Carolina, prefers Boston, but would go anywhere.
- No. 68A—Associate, American Institute of Accountants, C. P. A. (Mass., Fla.), with five years' public practice on staff of one well-known firm. Age 42, 4 dependents. Harvard graduate. Experience with manufacturing company and in employ of municipality. Now in Florida. No preference as to location, salary open.
- No. 69A—Associate, American Institute of Accountants, 12 years' public practice on own account in north Atlantic state. Age 52, one dependent, no objection to travel. Has had experience in employ of railroads, trust company and bank. Wishes position in Boston. Minimum salary, \$3,600.
- No. 62A—Senior accountant, age 28, married, now in Missouri, wishes staff position in southern California. Three and one-half years' public practice. College degree. Entirely willing to travel. Salary open.
- No. 72A—Senior accountant, age 30, with 5 years' experience on staffs of public accounting firms. Now employed by private concern as executive accountant. Experienced in foreign accounting, budgetary control and research work. Protestant, married. Now in Philadelphia. Prefers employment in New England or western states but will go anywhere. No objection to travel. Will travel abroad if necessary. Salary \$3,600.
- No. 65A—Woman, report reviewer, with eight years' experience with public accounting firms, C. P. A. (Ohio), wishes position in New York. Now in Ohio. Single, age 39, salary \$200-\$225 a month.
- No. 71A—Accountant, age 32, C. P. A. (N. Y., N. H., Fla.), with 10 years' public practice on staff of well-known firm and on own account. Also has been controller and secretary of financial corporation. Hebrew, married, N. Y. U. graduate. Wishes position in New York.
- No. 54A—Semi-senior, age 30, 6½ years' public practice, now in Florida, wishes position in New Haven or New York. Salary about \$3,600. No objection to travel.
- No. 66A—College graduate, age 40, with 17 years' business experience, 1 year as hotel auditor, and four months' public accounting practice, available for staff position in New York, Philadelphia, Baltimore or Washington, D. C., at salary of about \$40 a week.
- No. 70A—Accountant, age 42, with 3½ years' experience on staffs of public accounting firms, wishes position anywhere except in city of New York. Now in northwestern New York state. Salary \$3,000. Willing to travel.

The Institute has made no investigations and disclaims all responsibility.

## OBITUARY

### Henry A. Morrow

Henry A. Morrow, an associate of the American Institute of Accountants, died at his residence in Seattle, Washington, several weeks ago after a long illness. The immediate cause of his death was heart disease. Mr. Morrow was a certified public accountant of Washington and was admitted

to the Institute in 1920. He was in practice on his own account.

### Charles S. Jenckes

Charles S. Jenckes, a charter member of the American Institute of Accountants, died June 10th. Mr. Jenckes was a certified public accountant of Rhode Island.

# BULLETIN

OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS

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SEPTEMBER 20, 1929

SERIES B, No. 65

## ANNUAL MEETING OF THE AMERICAN INSTITUTE OF ACCOUNTANTS

### Election of Officers

About 250 members and guests were present at the annual meeting of the American Institute of Accountants at the Carlton hotel, Washington, D. C., held September 17 and 18, 1929. Representatives of British and Canadian accounting societies were present by invitation.

The following officers were unanimously elected for the coming year:

#### *President:*

Frederick H. Hurdman, New York

#### *Vice-presidents:*

Stanley G. H. Fitch, Massachusetts

Overton S. Meldrum, Kentucky

#### *Treasurer:*

Andrew Stewart, New York

The following members of council were unanimously elected:

#### *For five years:*

John D. Cherrington, Ohio

Charles B. Couchman, New York

Lewis G. Fisher, Rhode Island

John M. Gilchrist, Nebraska

Elkin Moses, Louisiana

Albert G. Moss, Texas

Walter Alexander Musgrave, Connecticut

#### *For four years (to fill vacancy):*

Emil S. Kroeger, Minnesota

#### *For three years (to fill vacancies):*

Wayne Kendrick, District of Columbia

J. E. Sterrett, New York

Alexander R. Grant, Illinois, and J. K. Mathieson, Pennsylvania, were elected auditors.

The council, at its meeting on September

16th, elected two members of the committee on nominations as follows:

R. O. Berger, Illinois

George Armistead, Texas

At the Institute meeting on September 17th the following were elected to fill the remaining positions on the committee on nominations:

S. Earl Shook, Connecticut

Harry Graham, Florida

George B. Buist, Indiana

John Flint, New York

Alexander Rae, Oregon

At the meeting of council on September 19th the following were elected members of the executive committee:

Arthur H. Carter, New York

Lewis G. Fisher, Rhode Island

P. W. R. Glover, New York

T. Edward Ross, Pennsylvania

J. E. Sterrett, New York

The president and treasurer are members of the executive committee ex officio.

The following committee on professional ethics was elected:

James Hall, New York

George Armistead, Texas

John F. Forbes, California

Carl H. Nau, Cleveland

William Jeffers Wilson, Pennsylvania

The following were elected members of the board of examiners:

#### *For three years:*

John F. Forbes, California

Charles E. Mather, New York

C. Oliver Wellington, Massachusetts

#### *For one year (to fill vacancy):*

Will-A. Clader, Pennsylvania



## **Proceedings**

The addresses which were delivered at the business session will appear in *The Journal of Accountancy* for October. These papers are "The accountant and the lawyer in tax practice," by Charles R. Trobridge; "Organizing and conducting an accounting practice," by George S. Olive; and "The development and effect of chain stores," by Albert Morrill. Discussion of these papers was led by the Hon. J. Harry Covington, William D. Cranstoun, John Flint and Stanley G. H. Fitch, respectively.

Colorado Springs was chosen as the place for the annual meeting in September, 1930.

## **Members and Associates Urged to Study Rules of Conduct**

The chairman of the committee on professional ethics of the American Institute of Accountants expressed an opinion in the report of the committee submitted to the council at the annual meeting, on September 16th, that many members and associates of the Institute are ignorant of the rules of professional conduct, and he recommended that a notice be published urging the members to acquaint themselves thoroughly with all rules. The chairman's suggestion was caused by the large number of complaints of violations of the rules referred to his committee during the past year. Most of the complaints were based on minor infractions of the rules caused by ignorance on the part of the offending members, and with few exceptions the offenders willingly discontinued the objectionable practices when they were brought to attention.

The committee on professional ethics is always glad to render an opinion on a proper course of conduct in special circumstances, in the light of the committee's official interpretation of the rules of conduct. Members who are in doubt are invited to address their questions to the committee.

The rules of conduct of the Institute are published annually in the year-book.

## **"Verification of Financial Statements" Should Be Obtained from Reserve Board**

In view of the great number of requests received by the American Institute of Accountants for copies of the reprints of "Verification of financial statements" it is

necessary to repeat the notice published in the *Bulletin* previously that these pamphlets should be purchased from the Federal Reserve Board, Washington, D. C.

While a committee of the American Institute of Accountants is author of the instructions, the Federal Reserve Board has undertaken the publication and distribution of the pamphlets.

The price of the pamphlets is 10 cents a copy and this amount should be enclosed with requests for copies addressed to the Federal Reserve Board.

## **Institute Examinations**

The next examinations of the American Institute of Accountants will be held November 14 and 15, 1929, at New York and other cities convenient to applicants.

## **International Congress**

At the time when this *Bulletin* went to press the secretary of the international congress on accounting had announced that 1,400 registrations had been received and that more were expected before the first session began on September 9th. Plans for the congress were completed many weeks before the time of meeting and foreign guests had begun to arrive in New York early in September.

Papers read at the various sessions will be published in book form in the near future, in English and in several foreign languages.

At a luncheon sponsored by the Institute on September 9th, C. M. Finney acted as master of ceremonies and introduced A. P. Richardson, secretary of the Institute, who in turn introduced to the guests the following representatives of the Institute: W. Sanders Davies, senior past president of the Institute, James Hall, chairman of the committee on professional ethics, Frederick H. Hurdman, president of the Institute, John B. Niven, John R. Ruckstell and William H. West, past presidents. About 200 people attended the luncheon.

## **Constitutionality of Consolidated Tax Returns of Corporations Is Questioned**

In a brief filed in the United States supreme court August 31st, in support of a request that the supreme court review the decision of the court of claims in the case of *National Candy Co. v. United States*, an

attack is made on the constitutionality of federal income and excess-profits taxation on the basis of consolidated income and invested capital of two or more corporations. The brief also questions the power of the administrative officers to prescribe such consolidation of returns when the applicable revenue act fails to authorize it. Specific reference is made to the act of 1917.

### **Commerce Commission Advised Not To Change Railway Cost Accounting at Present**

Although the question of cost accounting for steam railways is one which will bear intensive research under the auspices of the interstate commerce commission, there would not be justification at the present time for prescription of a system of continuous routine cost accounting with accompanying statistical requirements, according to a proposed report filed by Commissioner Eastman and made public on August 26th.

Commissioner Eastman's report recommends appointment of a committee to study the practicability of a continuous routine cost-accounting system and to report back to the commission. Experience with the accounting classifications for operating revenues and expenses, investment in road and equipment, and balance-sheet and income and profit-and-loss accounts of steam railroads, which have been in effect since 1914, the proposed report says, shows a need for thorough revision.

The recommendations were made in the proceeding entitled "Ex parte 91, general revision of accounting rules for steam railroads," after a prolonged hearing in which several suggested plans of cost accounting were presented.

### **CHANGES IN SYSTEM OF DEPRECIATION RECOMMENDED**

In a separate proposed report, made public at the same time and growing in part out of the same hearing, Commissioner Eastman suggests changes in the system of depreciation accounting for steam railroads and telephone companies. No radical departure from the general principles laid down by the commission is recommended, but several specific modifications of the report and order made by the commission several years

ago are urged. Sections of the proposed report deal with objections of the railroads to the principle of depreciation accounting; with analysis of the circumstances of the telephone companies in determining values and charging depreciation, as contrasted with the position of the railroads; with explanation of the plans of depreciation now in use and of possible alternatives, and with related matters.

The text of the reports, which is too long for reproduction and too detailed for brief summary, was reprinted in the *United States Daily* for August 27th, 28th, 29th and 30th.

### **Claims by Massachusetts Corporations under Macallen Decision**

The committee on legislation of the Massachusetts Society of Certified Public Accountants has prepared an opinion, which has been transmitted to members in a circular letter, on the advisability of filing claims based on the decision of the United States supreme court in the case of *The Macallen Company v. The Commonwealth of Massachusetts* (No. 578, May 27, 1929).

The court held that the excise tax on business corporations in Massachusetts is in substance a tax on income and can not be assessed against any portion of the income of the corporation which is received from obligations of the United States and from federal farm loan bonds, as well as tax-exempt county and municipal securities.

The recommendation of the committee of the Massachusetts society is as follows:

Members of the committee on legislation have had several inquiries from members of the society asking the advice of the committee regarding the filing of claims under the Macallen case. We therefore feel that this summary may be of interest to other members.

We recommend that a formal claim be filed prior to September 20, 1929, on form 382, under section 27, chapter 58 of the general laws, by each Massachusetts corporation whose 1927 return on line D 2, page 4, reported any interest from obligations of the United States and of instrumentalities and possessions thereof, or from obligations of the commonwealth of Massachusetts and political subdivisions thereof, provided the words "tax exempt" are written on the face of such state, county and municipal obligations, this claim to be filed for the reason that the tax based upon this item was illegally assessed, as determined by the supreme court of the United States in the case of *The Macallen Company v. Commonwealth* by decision rendered May 27, 1929.

The filing of similar claims in connection with the 1928 returns may well be deferred, as the time limit on such claims in the ordinary case does not expire until September 20, 1930.

The committee does not recommend the filing of claims for an abatement of excise taxes in full, based upon the theory that the effect of the judgment in the Macallen case was to make such portion of the law relating to domestic business corporations as set forth in sections 30 to 51 of chapter 63 null and void within the meaning of section 52. We feel that the chance of this contention being sustained is extremely remote, and even if it should be sustained, we believe the relief provisions of section 52, chapter 63, are entirely adequate to protect the equitable rights of taxpayers, and that in the remote contingency of any refund being obtained from the filing of such claim, such refund could only be obtained at the expense of other taxpayers, and could not in any equitable sense be justified.

CHARLES F. RITTENHOUSE  
RICHARD D. SEAMANS  
J. CHESTER CRANDELL, *chairman*  
Committee on legislation.

### **Requirements for Financial Reports Set by California Corporation Commissioner**

In the revised rules of practice before the state corporation department of California, publication of which was announced in the August *Bulletin*, there are certain general requirements appertaining to financial reports, in the formation of which the California State Society of Certified Public Accountants collaborated with the commissioner. These rules are as follows:

1. Financial reports filed with the department must be statements of fact and must set forth fully and truly all the assets and liabilities under concise headings.

2. Assets should be segregated and properly grouped under the following headings:

- (a) Current assets;
- (b) Fixed assets;
- (c) Deferred charges;
- (d) Intangible assets.

3. Only accepted, conservative accounting methods should be used in the valuation of assets, and any hypothecation of assets should be shown on the face of the financial statement.

4. Loans to its own officers and directors by a company must be shown as separate items on the balance-sheet.

Investments in other companies and in their subsidiaries should appear as separate items in the balance-sheet and may be included as a sub-heading under fixed assets.

5. Adequate depreciation reserves should be shown as deducted from proper asset account. Any variation of depreciation rates from those used for federal income-tax purposes should be fully explained.

6. Adequate reserve for bad or doubtful accounts should be provided and shown as a deduction from the appropriate account.

7. All known or ascertainable liabilities should be set up, including contingent and accrued liabilities.

8. Liabilities should be grouped under the headings of:

- (a) Current liabilities;
- (b) Funded and long-term debt;
- (c) Deferred credits.

9. Par-value stock should be carried at par on the financial statement. The number of shares of no-par stock should be shown and the value ordinarily should be the consideration received therefor.

10. Consideration other than cash for no-par stock should be explained in detail.

11. Any liability to issue stock must be indicated on the face of the financial statement.

12. Surplus should not be merged with the stated value of no-par stock.

13. An analysis of surplus must be submitted on a supporting schedule.

14. Unearned interest and discounts or anticipated profits must not be included in earned surplus.

15. Surplus arising from any appreciation of assets should be clearly shown in the balance-sheet.

16. The profit-and-loss statement should show the results of the company's operations:

- (a) Net profit or loss should be arrived at after proper deduction for depreciation, doubtful accounts and other charges have been made;
- (b) Extraordinary or unusual income should not be included in profit from ordinary operations; such income, however, should be included as separate items on the profit-and-loss statement under headings clearly indicating their source.

17. The commissioner of corporations reserves the right to reject any financial report, and to call for additional information or reports, or to make such further investigation or examination as deemed proper.

All financial reports submitted with applications for authority to sell or issue securities, to pay stock dividends from earned surplus, to distribute liquidating dividends, to issue bonds or notes secured by real or personal property, to issue debenture or other unsecured bonds or notes, etc., must be prepared in accordance with these rules.

Common-law trusts, investment trusts, finance, mortgage and related companies and brokers must also prepare required financial statements in accordance with these rules.

Among the special requirements of applicants for permits to issue stock is a provision that when a new public offering is to be made the financial statement filed should be prepared by a reputable public accountant satisfactory to the commissioner of corporations.

Applicants to issue debenture or other unsecured bonds or notes must submit certified financial statements and profit-and-loss statements for five years, or for the life of the company if that is less than five years.

Rule 24, dealing with brokers' reports and investigations, contains a provision that annual audits by reputable public accountants should be filed.

A general provision of the rules states that necessary additional audits and examinations may be requested or made by the auditing bureau of the corporation department at the company's expense. This provision apparently applies to all types of concerns within the purview of the regulations.

### **Effect of Industrial Mergers on Accounting Practice**

The latest issue of the news bulletin of the Massachusetts Society of Certified Public Accountants contains extracts from the stenographic report of an address delivered by George O. May at the New England regional meeting of the American Institute of Accountants held at Boston, May 6th. Among the subjects which Mr. May discussed was the effect of mergers and consolidations on the accounting practice of local firms of auditors. He said, in part:

"There is one tendency in modern corporation development that I would like to speak on especially—that is the tendency towards mergers and consolidations throughout the country. I suppose it is an economic development that can hardly be arrested, but it brings in its train a great many unfortunate consequences, as I suppose is true of all important economic changes.

"I can not view, without regret, the elimination of so many independent business men throughout the country or their being forced to choose between accepting the position of salaried employees and being forced out of business altogether, though this is an inevitable incident of this development.

"Another thing that I view with regret is the displacement of local auditors of these smaller concerns and their replacement by firms which enjoy a national reputation. The relations between the national firms and the local firms have always seemed to be a question of very real importance to the profession. I have never regarded their positions as at all antagonistic. In the past, undoubtedly a certain amount of work of the local accountants has passed in the natural development of business to the national firms, but I have felt that that was far more than compensated for by the general development of accounting throughout the country, which could not have been accomplished without the national firms, and I still feel that the national firms ought to be an asset to the local firms.

"I do not think that the national firms any more than the local firms can prevent the operation of an economic trend such as I have referred to. I know—speaking for my own firm—we have tried at times to do it but unsuccessfully. We have never wished to grow at the expense of the local accountants. We have encouraged our clients more than once to retain the local accountants where we felt there was reason to believe that the local accountant could render all the service that was required, but I know that nevertheless, we and other national firms must have taken a very considerable business from local accounting firms and that the loss of that business to the local accounting firms has been far more important to them than its gain has been to us. Now, what can we do to compensate? The one thing above all that I think we should do is that every national firm should maintain standards commensurate with its position; I fear that there are some national firms that do not, either in the ethics of getting business or in the ethics of doing business. I think it is the duty of the big firms to fight the battles for the whole profession. They can do it at much less relative cost. In order to fight these battles of principle, one has to be prepared to lose connections which carry remunerative fees or prestige that is valuable in itself. If the small firm loses an important audit, it means a substantial share of its total business—a big firm can lose a number without really feeling it. And that is why I feel that the first and foremost duty of the national firms is to take the strongest possible stand on questions of ethics and on questions of principle, and in both these fields to fight the battle of the whole profession. Now, I don't think that we are all doing it, but I think we ought to do it and I am glad of an opportunity to express myself very plainly on the subject.

"I sympathize very heartily with the local firms, which are doing good work in a professional spirit, but complain that the national firms are not always maintaining the standards of either accounting principles or ethics that they advocate and seek to impose on the profession as a whole.

"There is no doubt that there is room for both national firms and local firms in the profession and I don't think if the two work together properly that anything essentially antagonistic in their position can develop. That it is possible to make a great success without having a national organization is obvious."

### **Names of Accountants Included in Mercantile Agency Reports**

In answer to one of several questions submitted by the mercantile agency committee of the New York Credit Men's Association to R. G. Dun & Co., with a view to improving agency reports, it is said that if a financial statement is submitted which has been audited by a certified public accountant that fact is invariably mentioned in the agency report and the name of the accountant is given.

## **American Ambassador and Sir Josiah Stamp Guests of British Accountants**

The first official dinner at the new Incorporated Accountants Hall, London, was given in honor of Sir Josiah Stamp, world-famous economist and honorary member and examiner of the Society of Incorporated Accountants and Auditors. Charles E. Dawes, American ambassador to England, was a guest at the dinner and the Swedish minister, Baron E. K. Palmstierna, was also present. Sir Josiah Stamp, in his response to the toast to the guest of honor, discussed at some length the so-called Young plan of reparation payments and gave great credit to General Dawes as the author of the original temporary reparations plan, which the Young plan has superseded. General Dawes, in responding to a toast to Anglo-American friendship, complimented Sir Josiah Stamp on his work in assisting the solution of the question of reparations. General Dawes also praised the accountants of England for the high professional and technical standards which they have maintained and expressed the belief that the forthcoming visit of the Incorporated Accountants to America would do much to promote the cordial friendship of the professions in the two countries.

## **Women Successful in Incorporated Accountants Examinations**

Eight women were among the 916 candidates attempting recent examinations of the Society of Incorporated Accountants and Auditors. Five of the women passed the examinations but the majority of the male candidates failed.

## **Cost Accounting Recommended as Trade Association Activity**

In an address at a recent convention of the National Credit Men's Association Hugh P. Baker, manager of the trade-association department of the Chamber of Commerce of the United States, mentioned cost accounting as one of several trade-association activities which are proving of great value to the industries which the associations serve. The other activities which he mentioned are exchange of credit information, research of both technical and merchandising character,

trade promotion, standardization and simplification, public-relations work and elimination of practices leading to unfair competition.

## **Reasons for Bank Mergers**

The tendency toward bank mergers has two causes, according to an article in a recent issue of *Trust Companies*: first, the fact that the United States, in the position of a creditor nation, is producing more capital than can be used at home, with the result that finance facilities have been vastly expanded and men and institutions skilled in international finance have been developed; second, the large corporations resulting from industrial mergers and combinations have required banks competent to render a full and complete banking service with resources sufficient to extend the wide credit necessary to business success, and accordingly the large financial institutions have pooled their resources in order to meet the demand.

It is said that bank mergers are the result and not the cause of amalgamations and consolidations in industry.

The article contains the warning, however, that there is danger in bank mergers if the personal element of service is sacrificed and if the size of the new organization necessitates a mechanical and impersonal programme of operation.

## **Many Accounting Societies Approve Calendar Reform**

In a report of the national committee on calendar simplification submitted August 14, 1929, is included a list of organizations which have expressed approval or disapproval of calendar reform. Among those in favor of a change are listed the following societies of accountants: American Association of University Instructors in Accounting, American Society of Certified Public Accountants, National Association of Cost Accountants, Indiana Association of Certified Public Accountants, Kentucky Society of Certified Public Accountants, Oregon State Society of Certified Public Accountants, Rhode Island Society of Certified Public Accountants, Virginia Society of Public Accountants and Washington Society of Certified Public Accountants. No ac-

counting organizations are named among those opposed to reform.

The report recommends participation of the United States in an international conference to be held at an early date for the purpose of simplifying the calendar. It is mentioned that in 1933 January 1st will fall on Sunday and that, therefore, it would be a convenient year in which to put a new calendar into effect. The committee, which has been studying the question for more than a year, does not recommend any specific type of calendar reform, although it has found that public opinion in this country is preponderantly in favor of the 13-month fixed calendar, but suggests that representatives at an international conference on the subject should deliberate with open minds and with due care for the interests of all groups.

The report analyzes at length the defects of the present calendar and describes some

of the substitutes which have been proposed. The committee's conclusions are based on three conditions which its investigation has revealed:

1. The prevalence of a demand for calendar improvement on the part of a large and representative body of American opinion.

2. A growing recognition by the general public of the grave defects of the present calendar, a lively interest in the methods by which these can be overcome, and an intelligent understanding of the principles of calendar reform.

3. The actual experience of many business concerns with the use of private simplified calendars to secure more accurate accounting in their business affairs, and their practically unanimous judgment in favor of the general simplification of the civil calendar.

The report will be transmitted through the secretary of state to the League of Nations, at whose request the committee was originally formed.

## STATE LEGISLATION

No state legislature is now in active session. With the adjournment of the Georgia legislature on August 25th, the only remaining accountancy bill before a state legislature lost its chance of passage this year. The two-class regulatory bill which had been reported favorably in both house and senate was not finally acted upon prior to adjournment.

### Georgia

House bill No. 599, providing for appointment of county auditors by commissioners of roads and revenues, passed the Georgia legislature and was approved by the governor August 25th.

### Illinois

Owing to an error of the Institute's legislative reporting service it was announced in the June, 1929, *Bulletin* that a bill introduced in Illinois to repeal the C. P. A. law had been killed. The bill to which reference was made was actually intended to repeal the public accountant law of the state, passed in 1927, which is an act separate from the C. P. A. law of 1903. The attempt was successfully resisted by both certified public accountants and registered public accountants of Illinois.

### Oregon

Word has been received of the approval of Oregon senate bill No. 204 which deals with the reception of books of account as evidence. The text of the act, which has become chapter 400 of the law of 1929, is as follows:

AN ACT TO PROVIDE FOR THE CIRCUMSTANCES UNDER WHICH BOOKS OF ACCOUNT MAY BE RECEIVED IN EVIDENCE

*Be it enacted by the people of the state of Oregon:*

SECTION 1. That books of account containing charges by one party against the other, made in the ordinary course of business, are receivable in evidence only under the following circumstances subject to all just exceptions as to their credibility:

1. They must show a continuous dealing with persons generally, or several items of charge at different times against the other party in the same book or set of books.

2. It must be shown by the party's oath, or other competent evidence, that they are his books of original entries. When an entry is repeated, in the regular course of business, one being copied from another, at or near the time of the transaction, all the entries are equally regarded as originals.

3. It must be shown in like manner that the charges were made at or near the time of the transactions therein entered, unless satisfactory reasons appear for not making such proof.

4. The charges must also be verified by the party or clerk who made the entries to the effect that they believe them just and true, or a sufficient reason must be given why such verification is not made.

## STATE BOARDS OF ACCOUNTANCY

### Illinois

John Medlock has become a member of the board of examiners in accountancy of the state of Illinois. He succeeds Harold Benington. Officers of the board have been elected as follows: E. L. Kohler, chairman, and Mr. Medlock, secretary. Herbert Pope, an attorney, is the third member of the board.

### Kentucky

W. J. Ryans and J. S. Petot have become members of the state board of accountancy of Kentucky. They succeed S. W. Eskew and W. A. Hifner. The personnel of the board is at present as follows: M. B. McMillen, president; W. J. Ryans, treasurer, and J. S. Petot, secretary.

The next C. P. A. examinations before the Kentucky board are to be held October 15 to 18, 1929.

### Missouri

F. C. Belser has succeeded Edwin H. Wagner as a member of the Missouri state board of accountancy.

### New York

Two additional members of the New York state board of certified public accountants have recently been appointed. They are George E. Bennett and Edwin E. Leffler. The other members of the board are Henry E. Mendes, Simon Loeb and Thomas F. Conroy. Officers had not been elected at the time when this *Bulletin* went to press.

### North Carolina

W. M. Russ has become a member of the North Carolina state board of accountancy.

He succeeds Wright T. Dixon. The board has elected the following officers: Walter Charnley, president; J. B. McCabe, vice-president; W. M. Russ, secretary-treasurer. Frank L. Jackson is the fourth member of the board.

### Texas

The state board of public accountancy of Texas has announced that the following candidates passed the C. P. A. examination held in May, 1929: F. F. Alford, Samuel G. Chamberlain, R. Glenn Davis, Marquis G. Eaton, B. G. Kendall, W. Floyd McCroskey, H. C. Riquelany, Felix T. Terry, H. Chester Walling and Dempsey A. Winn.

### Washington

The director of licences of the state of Washington has announced that only 2 candidates of the 44 who tried the C. P. A. examination in May, 1929, were successful. Those who passed are C. E. Wexander and J. Leland Daniel.

### West Virginia

W. O. Dickey has succeeded David A. Jayne as a member of the board of accountancy of West Virginia and has been elected chairman of the board. The other members are O. K. Hayslip, secretary-treasurer, and W. H. Rardin.

### Wisconsin

Nelson C. Hall has succeeded Carl Penner as a member of the Wisconsin state board of accountancy. Mr. Hall has been elected president of the board.

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I. B. McGladrey, Cedar Rapids, Iowa, has been appointed chairman of a joint committee composed of both certified and non-certified public accountants in that state engaged in drafting a constitution and by-laws for the formation of a new accountants' organization.

A pamphlet entitled "A study of the methods of accounting for no-par stocks in the public utilities," has been published by the bureau of business service of Ohio Wesleyan University. This is the second of a series of studies in no-par stock, by D. J. Hornberger.

## NEWS OF LOCAL SOCIETIES

### Alabama Society of Certified Public Accountants

The annual meeting of the Alabama Society of Certified Public Accountants was held Monday, September 2, 1929, at the Jefferson Davis hotel, Montgomery.

The society voted a sum of money to be used in accounting research work at the University of Alabama, such work to be conducted by a student in the commercial department of the university. The disposal of this fund was delegated to the committee on education of the Alabama society.

Robert E. Troy delivered an address on "Treatment of surplus where capital stock has no par value;" Francis B. Latady spoke on the natural business year, and William J. Christian read a paper on the accountant's responsibility for inventories.

The meeting extended a rising vote of thanks to John F. Andrews for his service as secretary-treasurer of the society, a position held by Mr. Andrews for the past ten years, from which he had offered his resignation.

The following officers for the coming year were elected: president, William J. Christian; secretary-treasurer, E. H. Nowlin; chairman of council, V. R. Pritchard; members of council, John F. Andrews, James E. Dowe, H. C. Crane and George D. King.

### California State Society of Certified Public Accountants

#### SAN FRANCISCO CHAPTER

A regular monthly meeting of the San Francisco chapter, California State Society of Certified Public Accountants, was held at the Engineers' club, August 21st. H. Vernon Scott spoke on the work of the state chamber of commerce. A paper on the subdivision of the document, "Verification of financial statements," dealing with cash was read by James E. Hammond. General discussion followed the paper. After consideration of the type of programmes for future meetings of the chapter it was resolved that speakers from outside the society be invited to address the next two meetings on subjects related to accounting, and that further discussion of "Verification of financial statements" be arranged.

### Iowa Society of Certified Public Accountants

The annual meeting of the Iowa Society of Certified Public Accountants was held August 31st at the Savery hotel, Des Moines. The following officers were elected: president, Carl B. Meyers; vice-president, William Guthrie; regional vice-presidents, E. C. Worthington, A. H. Hammarstrom and P. L. Billings; treasurer, George Parker; secretary, E. A. Bertholf.

### Society of Louisiana Certified Public Accountants

At the annual meeting of the Society of Louisiana Certified Public Accountants, held at the New Orleans association of commerce rooms on August 8th, the following officers were elected: L. E. Schenck, president; John F. Hartmann, vice-president; Darby Sere, treasurer; George A. Treadwell, secretary. In addition to the officers the following are members of the executive board: Charles L. Seemann, A. M. Smith and D. D. Ewing.

### Massachusetts Society of Certified Public Accountants

James Willing, president of the Massachusetts Society of Certified Public Accountants has appointed the following committees for the current year:

#### *Legislation:*

J. Chester Crandell, *chairman*  
Charles F. Rittenhouse  
Richard D. Seamans

#### *Meetings:*

Homer N. Sweet, *chairman*  
Willard W. Dow  
S. L. G. Sutherland

#### *Publicity:*

Clifton W. Gregg, *chairman*  
George S. Clarkson  
Schuyler Dillon

#### *Education:*

P. F. Brundage, *chairman*  
John F. Clarke  
Albert E. Hunter

#### *By-laws:*

Walter L. Boyden, *chairman*  
E. J. McDevitt, jr.  
J. Harold Stewart



## **Meeting of Minnesota Accountants**

About 100 persons were present at a meeting of accountants of the state of Minnesota which was held at Duluth on July 20th. Members of the Minnesota chapter of the American Institute of Accountants, the Minnesota Society of Certified Public Accountants and the Minnesota Association of Public Accountants, as well as other accountants practising in the state, were in attendance.

A resolution was adopted to endorse John E. MacGregor, a member of council of the American Institute of Accountants, for the position of collector of customs for the port of Duluth. The text of the resolution is as follows:

WHEREAS, John E. MacGregor, one of our prominent accountants of this state, is being considered for the honorable position of collector of customs of the port of Duluth; and

WHEREAS, it is our opinion, that his appointment to said office would be of great benefit to the public at large and to the accounting profession in particular,

BE IT HEREBY RESOLVED, that the accountants of this state go on record as favoring the appointment of Mr. MacGregor as collector of customs for the port of Duluth; and

BE IT FURTHER RESOLVED, that the secretary of this meeting send a letter to Senator Thomas D. Schall endorsing Mr. MacGregor and urging his early appointment.

Jarl W. Hanson acted as chairman of the meeting. The visiting accountants were welcomed to Duluth by James S. Matteson, and Herbert M. Temple responded on behalf of the guests. George R. Martin, vice-president of the Great Northern Railroad, spoke on the effect of the O'Fallon decision on railway valuations, mentioning particularly the features of the decision in conflict with the theoretical rate structure built up during the past several years. He compared specific basic prices used in valuations made at different dates. Homer C. Fulton, attorney, delivered an address entitled, "The effect of business revolution on the accounting profession."

## **Oklahoma Society of Certified Public Accountants**

### **TULSA CHAPTER**

Announcement has been made that the Tulsa chapter of the Oklahoma Society of Certified Public Accountants offers a scholar-

ship to a deserving young man residing in Tulsa. The scholarship provides training in the Oklahoma School of Accountancy, Law and Finance in the subjects of accountancy, law, finance, economics, organization, taxation and business administration. The winner of the scholarship will be entitled to attend all weekly meetings of the society and upon his graduation will be employed by one of the members. The award will be made yearly. A committee has been appointed to select the first recipient.

## **Pennsylvania Institute of Certified Public Accountants**

The first of a series of informative bulletins of interest to members of the accountancy profession and the business public has been published by the Pennsylvania Institute of Certified Public Accountants. This initial bulletin describes the organization of the Pennsylvania Institute, which has completed thirty-two years of existence, and the qualifications of its members.

### **PITTSBURGH CHAPTER**

The publicity committee of the Pittsburgh chapter of the Pennsylvania Institute of Certified Public Accountants has issued a pamphlet containing a list of members and a brief history of the chapter.

## **Texas Society of Certified Public Accountants**

Beaumont is the city at which the annual meeting of the Texas Society of Certified Public Accountants will be held this year. The chairman of the committee on coöperation with other societies, N. O. Richardson, has made a tentative proposal that the meeting be held in conjunction with the societies of Arkansas and Louisiana. November has been suggested as the month for the meeting.

## **Wisconsin Society of Certified Public Accountants**

Announcement of the programme for the annual meeting of the Wisconsin Society of Certified Public Accountants on September 16th was made on September 3rd. A paper on "Financial and operating ratios as a guide to management" by G. M. Pelton, financial analyst of Swift & Company, was a feature of the programme.

# REVIEW

WALTER L. MORGAN — "ACCOUNTING, MANAGEMENT AND COSTS FOR AIRPORTS"

Second of a series of articles published in *Airports*, August, 1929.

The author emphasizes the necessity of classifying and analyzing various revenues of an airport in more detail than is required in ordinary business procedure, because the airport management, having little precedent or experience to guide it, must be able to ascertain readily which are profitable or unprofitable units. Trial and experiment will for some time to come determine which are the best sources of revenue, he says. Detailed revenue accounts and supporting records are, therefore, indispensable to the management of an airport.

Control of revenues, the article continues, is largely a matter of installing a proper system of internal check. The author recommends segregation of the accounting work between the executive offices and the field operation office. All accounting should be under the supervision of experienced clerks, as pilots, mechanics and other technicians should not be expected to have much interest in or knowledge of proper record-keeping. The field offices should be responsible for detailed operating and cash reports, which may be checked by the accounting department. The executive offices should be responsible for collection of income items such as rents, bills for commercial privileges, repairs and sales other than cash sales at the field, concessions, advertising, interest, etc. The field office collects and records income for admission, parking, bathing charges, landing fees, transit rentals from field storage and bunks, cash sales of oil, gasoline, parts, etc. The field office is also responsible for seeing that transit storage, repairs, sales and other charges are collected before clearance is granted. The field-office representative should deposit in the bank each morning all receipts of the preceding day and should render a daily cash report to the executive office, supported by duplicate deposit slips receipted by the bank, gas and oil reports, ticket report and flying and operating report. In addition these reports should tabulate the unit prices and the amount of the sales and show whether or not cash was collected or the customer was charged. The author suggests the following standard classification of revenue accounts for an airport:

	Classification and notes
Admissions—flying field.....	(1)
Parking—flying field.....	(1)
Admissions—special airmeets.....	(1)

Rentals of hangars.....	(2)
Rentals from field storage.....	(3)
Rentals of showrooms.....	(2)
Rentals of space in administration building.....	(2)
Rentals of bunks and sleeping quarters.....	(3)
Locker rentals.....	(3)
Income from commercial privileges (airport's percentage):	
(a) Passenger hopping.....	(2)
(b) Scenic trips.....	(2)
(c) Student instruction.....	(2)
(d) Chartered and special trips.....	(2)
(e) Photographic flying.....	(2)
Landing fees and passenger tolls (represents charges on lines not paying commercial privileges).....	(3)
Income from floodlighting of field.....	(3)
Repairs of aeroplanes.....	(3)
Servicing and maintenance of aeroplanes.....	(2)
Profit on sale of aeroplanes.....	(2)
Profit on sale of aeroplane equipment.....	(3)
Profit on sale of parts.....	(3)
Profit on sale of gasoline.....	(3)
Profit on sales of oil.....	(3)
Profit on novelty and miscellaneous sales.....	(1)
Concessions:	
(a) Gas and oil—automobiles.....	(2)
(b) Refreshment and tobacco stands....	(2)
(c) Restaurant.....	(2)
(d) Shoe shines, vending machines, etc..	(2)
Swimming-pool department:	
(a) Bathing charges.....	(1)
(b) Parking.....	(1)
(c) Refreshments, etc.....	(1)
Flying-club department:	
(a) Membership dues.....	(2)
(b) Dances and entertainments.....	(3)
Advertising income (classify by divisions)...	(2)
Financial income:	
(a) Interest and dividends from investments.....	(2)
(b) Interest on call loans and saving accounts.....	(2)
(c) Interest on regular bank accounts...	(2)
(d) Purchase discount.....	(2)

## NOTES

- (1) Revenues ordinarily collected in cash at field office.
- (2) Revenues ordinarily billed and collected by the executive office.
- (3) Revenues which may be collected by both field and executive offices. If collected in cash at time item is sold or service is rendered the revenue would be collected by the field office; if on a monthly or charge basis the revenue should be collected by the executive office.

Louis D. Blum was appointed by Governor Roosevelt to represent the state of New York at the twenty-second annual conference of the National Tax Association.

Harvey C. Daines is author of an article entitled "The changing objectives of accounting" which appeared in *The Accounting Review* for June, 1929.

## EMPLOYMENT EXCHANGE

After a year of constantly increasing activity, the employment exchange reviewed its records for purposes of the annual reports to the council. A hundred and thirty-five accountants in search of employment have applied for assistance but many of them were not qualified for any of the positions available. Many others failed to answer communications and another large group found positions outside the exchange soon after filing applications.

More than 100 positions could have been filled during the year if the right men had been available.

It is expected that during the coming fall more firms than ever will avail themselves of the assistance of the exchange in completing their staffs, and for this reason members are requested to refer to the Institute any promising accountants whom they may know are in search of positions.

The following applicants are among those now available:

- No. 53A—Member, American Institute of Accountants, C. P. A. (Mass., No. Car.). Age 51. Has been branch manager and contract manager for public accounting firms. 20 years' public practice. Now in North Carolina, wishes change. Prefers Boston. Salary open.
- No. 75A—Member, American Institute of Accountants, C. A. (Scotland), C. P. A. (Minnesota). Sixteen years' public practice and 3 years as comptroller of private company. Age 41. Wishes executive position in corporation or in public accounting firm. Salary open. Now in New York. Will go anywhere.
- No. 76A—Member, American Institute of Accountants, C. P. A. (Pa.). Thirty years' public practice, 10 years as managing officer of manufacturing company. Age 54. Wishes position in east with private corporation. Would consider salary of \$5,000 or more.
- No. 69A—Associate, American Institute of Accountants. Age 52. Twelve years' public practice. Also has had experience in employ of bank and trust company. Now in Maine. Wishes position in Boston, if possible. Salary \$3600 or more.
- No. 68A—Associate, American Institute of Accountants, C. P. A. (Mass., Florida), Harvard graduate. Five years' public practice and experience as accountant in manufacturing company and as municipal officer. Age 42. Salary open.
- No. 65A—Woman, age 39, with 8½ years' experience as report writer and editor in public accounting firms. C. P. A. (Ohio). Now in Ohio. Wishes position with professional accountants in New York. Salary \$200-225.
- No. 77A—C. P. A. (Iowa), age 36, seven years' public practice and 3 years as treasurer of private company. B.A., University of Iowa. Wishes position in Miami, Jacksonville or Atlanta. Now in Iowa. Salary about \$4,000.
- No. 71A—Senior accountant, C. P. A. (Fla., N. Y., N. H.), age 32. Available in New York. American, Hebrew, 10 years' public practice with large firm and on own account. Also experience as comptroller and secretary of financial company. No objection to travel. Salary open.
- No. 73A—C. P. A. (Fla.). About 9 years' public practice and 5 years as comptroller of private company. Age 38, American, Protestant. Salary open. Will go anywhere.
- No. 62A—Accountant, age 28, now in Missouri, wishes to move to southern California, Oklahoma or Texas. Three and one-half years' public accounting practice and experience with railroad and industrial companies. Salary open. No objection to travel.
- No. 70A—Accountant, 3½ years' public practice, now in upper New York state, wishes position outside New York city. Age 42, American, Protestant. Salary \$60 a week. Willing to travel.
- No. 74A—Accountant, age 32, with 5 years' public practice and experience in banking and financial houses. Now in New York. Will go anywhere. Salary about \$75.
- No. 78A—Accountant, age 38, with 2¾ years' experience in public practice. Now in Pennsylvania. Will go anywhere. Salary about \$175 a month.

The Institute has made no investigations and disclaims all responsibility.

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## OBITUARY

### Frank Loeb Schneider

Frank Loeb Schneider, senior member of the firm of Frank Loeb Schneider Co., died at his summer home at Sea Gate, New York, July 28, 1929, at the age of 44.

After studying engineering in his younger days he turned to accountancy, and in 1908

founded the firm of which he was senior member at the time of his death. He had been active in social welfare work, serving as a director of the Jewish Memorial Hospital and the Grand Street Boys Association. He also belonged to other civic and fraternal organizations.

# Bulletin Supplement

September 20, 1929.

## To Members and Associates of the American Institute of Accountants:

At the meeting of council of the American Institute of Accountants at the Carlton hotel, Washington, D. C., September 16th, the recommendation of the board of examiners for election of applicants for admission was approved. Two applicants for membership and 2 for associate membership who had passed the Institute's examinations for a C. P. A. certificate in a coöperating state were among those recommended. Eight applicants for membership had passed other examinations acceptable to the board. One applicant for membership was recommended on basis of oral examination. Three associates were recommended for advancement to membership.

The following are the names of those recommended for admission:

### *For Advancement to Membership:*

Ben S. Naven, Chicago  
Charles E. Procasco, Harrisburg, Pa.  
Henry M. Thomson, Los Angeles

### *For Admission as Members:*

James L. Benson, Baltimore  
Alfred Bernard Cipriani, New York  
Robert T. Cunningham, Dallas  
Malachi A. Finnen, New York  
William H. Funk, Philadelphia  
Felix E. Mueller, Joplin, Mo.  
Leslie Croft Nye, Chicago  
Harry Merrick O'Laughlin, Detroit  
J. Frank Pflug, Kansas City  
Frank C. Taylor, Beaumont, Texas  
James R. Yates, Baltimore

### *For Admission as Associates:*

H. E. Harmon, Chicago  
John Henry Schneider, Chicago

These applicants do not become members and associates until declared elected by the president. If protest is to be made against the election of any applicant on the list it should reach the offices of the Institute before October 7th.

A. P. RICHARDSON, *Secretary.*

# BULLETIN

OF THE

## AMERICAN INSTITUTE OF ACCOUNTANTS

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### ANNUAL MEETING, AMERICAN INSTITUTE OF ACCOUNTANTS

About 250 members and guests were present at the annual meeting of the American Institute of Accountants, held at the Carlton hotel, Washington, D. C., September 16-19, 1929. Election of officers was reported in the September *Bulletin*. A full report of the proceedings will be published in the 1929 *Yearbook*, now in the hands of the printers.

Following several committee meetings, the first session of the council convened at 10 a.m., September 16th. Among the reports presented was that of the special committee on coöperation with bankers, dealing with statements giving effect to future transactions. It was ordered that this report be printed in the Institute *Bulletin* as well as in the *Yearbook*, and accordingly it appears elsewhere in this issue. It was resolved that the report of the special committee on definition of earned surplus should be printed in pamphlet form and distributed among the membership. The pamphlets were mailed to every member and associate on September 30th.

The council adjourned to meet as a trial board to hear charges against a member. The proceedings of the trial board will be reported in the *Yearbook* and in *The Journal of Accountancy*.

At 1 p.m. on the same day, following a reception in the patio of the Carlton, a luncheon was tendered by Mrs. F. H. Hurdman to wives of members of the council and wives of foreign guests.

In the afternoon the annual golf tournaments were held at the Congressional country club. The results are reported elsewhere in this *Bulletin*. In the evening a large party attended the opening performance of a comedy at the Belasco theatre.

At 8:30 p.m. a meeting of members of boards of examiners in accountancy took place. The chairman of the Institute's board presided and about a dozen representatives of state boards were present. The Institute's plan of coöperation in examinations and other questions of interest were discussed.

At the first open session on September 17th, invocation was offered by Canon Arthur B. Rudd of the Washington cathedral. Sidney F. Taliaferro, a commissioner of the District of Columbia, welcomed the Institute members to Washington.

The president introduced representatives of the Institute of Chartered Accountants in England and Wales, the British Society of Incorporated Accountants and Auditors, the Dominion Association of Chartered Accountants and the Institute of Chartered Accountants in Australia and other guests.

The papers read at the meeting were published in *The Journal of Accountancy* for October, 1929.

At 11:30 a reception for ladies was held at the Carlton hotel, and subsequently the ladies went to the Congressional country club for luncheon and a bridge party.

During the afternoon a party went to

Hoover field to take sightseeing trips by airplane.

In the evening a group of about 140 persons sailed down the Potomac river to Mt. Vernon. Dinner was served on the boat, and there was dancing.

On the afternoon of September 18th a large party drove in buses to see the Masonic memorial, Alexandria, the Arlington cemetery and Washington's home, Mt. Vernon.

More than 200 persons were present at the annual banquet on the evening of September 19th. Col. A. H. Carter acted as toastmaster, and introduced several of the foreign guests and F. H. Hurdman, newly re-elected president of the Institute. The banquet was followed by dancing at the Madrillon restaurant.

### **American Institute of Accountants Golf Tournament**

During the annual meeting of the American Institute of Accountants, Washington, D. C., a golf tournament was held on September 16th at the Congressional country club.

The team contest for the Missouri golf trophy, a silver cup presented for competition by the Missouri State Society of Certified Public Accountants in 1925, resulted in a victory for the team representing New York. The team consisted of H. A. Wythes, F. H. Hurdman, Andrew Stewart and A. H. Carter.

Percival F. Brundage won the prize for low gross score in the individual tournament, with 86. B. J. Neff won the prize for low net with 99—30—69. The other winners were as follows: second low gross, E. L. Barette, 87; second low net, G. Harvey Porter, 98—26—72; third low gross, Robert Brown, 87; third low net, L. E. Vannais, 97—23—74.

### **Annual Meeting, 1930**

It is generally believed that the choice of Colorado Springs as the place for the annual meeting of the American Institute of Accountants in 1930 will result in a delightful and highly successful meeting. Some members are beginning already to plan a vacation next summer so that they may be in Colorado Springs from September 15th to 18th.

The Broadmoor hotel, which has been selected as headquarters, is wholly adequate,

and the surrounding country offers most attractive opportunities for sport and sight-seeing.

### **"Giving Effect" Statements**

At a meeting of the council of the American Institute of Accountants held September 16, 1929, it was resolved that the report of the special committee on coöperation with bankers should be printed in the *Bulletin* for the information of members. It was also resolved that in conjunction with that report the report of 1923 should be reproduced. The following reports are published in conformity with the resolution of council:

#### **1929 Report**

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: During the past year the activities of your committee on coöperation with bankers have been principally in connection with the answering of questions from the Robert Morris Associates and from members of the Institute on matters falling within the scope of your committee. Correspondence of general interest was published in the *Bulletin* of the American Institute of Accountants under date of February 15, 1929.

Your committee has been vitally interested in the revised federal reserve bulletin now published under the title "Verification of financial statements," and many of the bank credit men have expressed their satisfaction with the revised document.

In June last a member of the Institute raised a question regarding the rules adopted by the Institute in respect of "giving effect" statements. Your committee considers the question of such general interest that the letter from the member and the committee's reply are given in full below:

#### **Inquiry:**

"I find in discussing with others the rules which the Institute adopted in respect to 'giving effect' statements, that there is a belief on the part of some that while the Institute approved the rules proposed by the committee, it merely recommended their adoption for the guidance of members, and while the rules would naturally have great weight in indicating what the Institute considers to be good practice, a slight deviation therefrom would be permitted in cases where no misrepresentation would result.

"In respect to the rule which provides that the certification of a 'giving effect' statement should be made only 'if the interval between the date of the statement and the date of the subsequent transactions is reasonably short—not to exceed, say, four months,' it is thought that the word 'say' indicates that the four-months' period is not to be fixed or arbitrary, but is rather to be indicative of usual good practice. If this opinion is right, the question arises as to whether there is any real limit in the time in which such certification may be made. For instance, is the accountant to use his discretion

## Bulletin of American Institute of Accountants

as to whether or not he may certify six months after the date of the statement?

"Would it not be advisable to get the committee on cooperation with the bankers to express an opinion on these points?"

### Reply:

"It seems to us that you have understood the situation correctly. Several of the rules do not allow any latitude, but the one which you specifically quote, fixing the interval between the date of the statement and the date of the subsequent transactions at, say, four months, was framed with the idea of giving the accountant some leeway, although the feeling of our committee is that the time should, in the great majority of cases, be less than, rather than more than, the four months mentioned.

"The accountant must reasonably satisfy himself that the statement at the date when the securities are actually issued is no less favorable in any particular than the adjusted statement to which his certificate is appended. The time limit of four months is arbitrary but was laid down as the result of many years' experience. While there is some latitude in this ruling, the committee feels that it should be exercised only with the greatest discretion in certifying statements where the interval is longer than the time mentioned. The longer the interval between the date of the statement and the date of issue of the securities the more difficult it is for the accountant to satisfy himself that all intervening transactions, which may adversely affect the position of the company, are properly reflected in the adjusted statement. It is within the knowledge of members of the committee that in several instances accountants have flatly refused to certify such a statement on the sole ground of the length of time which has elapsed, and the justice of their position has been recognized by the bankers and others interested in the issue. It seems to the committee that the reasons for using great discretion in extending the time beyond the four-months' limit mentioned are obvious."

As on former occasions, your committee has received the most helpful cooperation from the committee of the Robert Morris Associates in dealing with all the questions which have arisen between the two committees.

Respectfully submitted for the special committee on cooperation with bankers.

WM. B. CAMPBELL, *Chairman*  
ANSON HERRICK  
ARTHUR F. LAURENTZ  
WILLIAM H. WEST

1923 Report

### TO THE COUNCIL OF THE

### AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The special committee on cooperation with the bankers has given careful consideration to the question referred to it by the council of the Institute regarding the certification of balance-sheets giving effect to transactions consummated at a date later than the date of the balance-sheet.

The practice which dates back some twenty years or more, but at that time was rarely resorted to, has in recent years become the rule rather than the exception in the case of balance-sheets prepared in connection with new financing. The question was re-

ported upon by the special committee on procedure at the September, 1920, meeting of the council, but since that time the practice has grown to such an extent that your committee feels it is now in order to deal with it somewhat more fully and, further, the question of the accountants' position with regard to such statements has recently been raised by the Robert Morris Associates committee.

Your committee has carefully considered the advantages to the issuing houses and the investing public of such a form of certification as well as the objections to and dangers of the procedure. The committee is convinced that as a practical matter accountants are confronted with a condition and not a theory, and that the preparation and certification of such statements properly fall within the field of the accountant's work.

It is manifest, however, that such statements should only be issued under proper safeguards and rules for the guidance of the members of the profession to insure as far as possible sound standards and uniformity of practice.

Your committee, of course, realizes that such rules should be broad and sufficiently elastic to allow of the exercise of initiative in dealing with unusual situations which will inevitably arise in connection with such a question.

Your committee accordingly recommends the following general rules for the guidance of the members of the Institute with reference to the issuance of such statements and certificates:

I. The accountant may certify a statement of a company giving effect as at the date thereof to transactions entered into subsequently only under the following conditions, viz.:

(a) If the subsequent transactions are the subject of a definite (preferably written) contract or agreement between the company and bankers (or parties) who the accountant is satisfied are responsible and able to carry out their engagement;

(b) If the interval between the date of the statement and the date of the subsequent transactions is reasonably short—not to exceed, say, four months;

(c) If the accountant, after due inquiry, or, preferably, after actual investigation, has no reason to suppose that other transactions or developments have in the interval materially affected adversely the position of the company; and

(d) If the character of the transaction to which effect is given is clearly disclosed, i. e., either at the heading of the statement or somewhere in the statement there shall be stated clearly the purpose for which the statement is issued.

II. The accountant should not *certify* a statement giving effect to transactions contemplated but not actually entered into at the date of the certificate, with the sole exception that he may give effect to the proposed application of the proceeds of new financing where the application is clearly disclosed on the face of the statement or in the certificate and the accountant is satisfied that the funds can and will be applied in the manner indicated. It is not necessary that the precise liability shown in the balance-sheet before adjustment should actually be paid out of the new money. It is sufficient, for instance where the balance-sheet before the financing shows bank loans, if the proceeds are to be applied to bank loans which are either

identical with or have replaced the bank loans actually outstanding at the date of the balance-sheet. Ordinarily, however, the accountant should not apply the proceeds of financing to the payment of current trade accounts payable, at least not against a normal volume of such current accounts payable, because there must always be such accounts outstanding and the application of new moneys against the outstandings at the date of the balance-sheet results in showing a position which in fact could never be attained. The accountant may usually best satisfy himself that the funds will be applied as indicated by getting an assurance from the issuing house on the point.

III. In any description of a statement or in any certificate relating thereto it is desirable that the past tense should be used. It should also be made clear that the transactions embodied have been definitely covered by contracts.

IV. When the accountant feels that he can not certify to such a hypothetical statement, probably because of the length of the period which has elapsed since the accounts have been audited, he may be prepared to write a letter, not in certificate form, stating that at the request of the addressee a statement has been examined or prepared in which effect is given, in his opinion correctly, to proposed transactions (which must be clearly specified). Such letters should be given only in very special cases and with the greatest care.

The committee illustrates the special form of statement and certificate, and also of the letter coming within the terms of rule IV, as follows:

*Form of balance-sheet and certificate where conditions laid down in rules I and II have been met*

A. B. C. COMPANY  
Balance-sheet  
December 31, 1922

(Giving effect as at that date to the sale of \$5,000,000 first-mortgage bonds since consummated and the application of the proceeds in part in reduction of liabilities.)

*Assets*

*Liabilities*

We have examined the books and accounts of the A. B. C. Company for the year ended December 31, 1922, and the agreement dated March 2, 1923, for the sale of \$5,000,000 first-mortgage bonds, and we certify that the above balance-sheet is, in our opinion, a fair and accurate statement as of December 31, 1922, of the financial position of the company, giving effect at that date to the provisions of the agreement mentioned.

*Letter coming within terms of rule IV*  
New York, August 25, 1923.

Mr. John Smith, Vice-president,  
A. B. C. Company,  
52 William Street,  
New York City.

Dear Sir:

In accordance with your request, we have examined the attached balance-sheet of the A. B. C. Company as of June 30, 1923, and beg to advise you that in our opinion it is prepared so as to reflect correctly the position of the company as shown by the books, but giving effect as at that date to the pending issue of \$300,000 first-mortgage bonds as provided in the agreement dated August 25, 1923, and to the extinguishment out of the proceeds of the new financing of the notes payable to bankers to the amount of \$300,000.

It will be understood that we have not audited the books since the close of the fiscal year on December 31, 1922. You have heretofore been furnished with the audited accounts as of that date, which were in accord with the books.

Yours very truly,

Respectfully submitted for the special committee on coöperation with the bankers.

WILLIAM B. CAMPBELL, *Chairman.*

## Referendum on Calendar Reform

The Chamber of Commerce of the United States of America has submitted to its members a referendum on the question of calendar reform. The recommendations on which a vote is requested were advanced by a special committee which had made an extensive study of the subject. The proposals are as follows:

"That the present calendar should be so changed as to bring about a greater comparability in business records for periods within a year and for periods from year to year.

"That the form which changes in the calendar should take should be determined through international conference.

"That the government of the United States should participate in an international conference to determine the form of changes to be made in the calendar."

The American Institute of Accountants through its executive committee has cast an affirmative vote on the referendum. This does not necessarily imply that the Institute favors any specific change in the calendar but merely indicates a belief that the proposed international conference on the subject is desirable.



## Conducting an Accounting Practice

A large part of the discussion at the open sessions of the annual meeting of the American Institute of Accountants dealt with questions which arise in the conduct of an accounting practice. The discussion was a result of the paper, *Organizing and conducting an accounting practice*, by George S. Olive.

The opinions expressed were so interesting that it has been decided to publish them, together with Mr. Olive's paper, in the form of a pamphlet. It is estimated that the matter will occupy about 60 printed pages. It includes remarks on planning offices of an accounting firm, personnel problems, per-diem fees, accounts and records, working papers, assignment of staff and other matters.

## Rules of Conduct

The committee on professional ethics of the American Institute of Accountants reported to the council, at its meeting on September 16, 1929, that there are members of the Institute who seem to be ignorant of the rules of professional conduct which have been adopted by the council. It was suggested that in order to bring this matter to the attention of the entire membership the rules should be reprinted in an early issue of the *Bulletin*. In accordance with that resolution the following reprint of the rules is made:

### RULES OF PROFESSIONAL CONDUCT

Including amendments prepared by the committee on professional ethics and approved by the council April 8, 1929.

(1) A firm or partnership, all the individual members of which are members of the Institute (or in part members and in part associates, provided all the members of the firm are either members or associates), may describe itself as "Members of the American Institute of Accountants," but a firm or partnership, all the individual members of which are not members of the Institute (or in part members and in part associates), or an individual practising under a style denoting a partnership when in fact there be no partner or partners or a corporation or an individual or individuals practising under a style denoting a corporate organization shall not use the designation "Members (or Associates) of the American Institute of Accountants."

(2) The preparation and certification of exhibits, statements, schedules or other forms of accountancy work, containing an essential misstatement of fact or omission therefrom of such a fact as would amount to an essential misstatement or a failure to put prospective investors on notice in respect of an essential or material fact not specifically shown in the balance-sheet itself shall be, ipso facto, cause for

expulsion or for such other discipline as the council may impose upon proper presentation of proof that such misstatement was either wilful or the result of such gross negligence as to be inexcusable.

(3) No member or associate shall allow any person to practise in his name as a public accountant who is not a member or an associate of the Institute or in partnership with him or in his employ on a salary.

(4) No member or associate shall directly or indirectly allow or agree to allow a commission, brokerage or other participation by the laity in the fees or profits of his professional work; nor shall he accept directly or indirectly from the laity any commission, brokerage or other participation for professional or commercial business turned over to others as an incident of his services to clients.

(5) No member or associate shall engage in any business or occupation conjointly with that of a public accountant, which in the opinion of the executive committee or of the council is incompatible or inconsistent therewith.

(6) No member or associate shall certify to any accounts, exhibits, statements, schedules or other forms of accountancy work which have not been verified entirely under the supervision of himself, a member of his firm, one of his staff, a member or an associate of this Institute or a member of a similar association of good standing in a foreign country which has been approved by the council.

(7) No member or associate shall take part in any effort to secure the enactment or amendment of any state or federal law or of any regulation of any governmental or civic body, affecting the practice of the profession, without giving immediate notice thereof to the secretary of the Institute, who in turn shall at once advise the executive committee or the council.

(8) No member or associate shall directly or indirectly solicit the clients or encroach upon the business of another member or associate, but it is the right of any member or associate to give proper service and advice to those asking such service or advice.

(9) No member or associate shall directly or indirectly offer employment to an employee of a fellow member or associate without first informing said fellow member or associate of his intent. This rule shall not be construed so as to inhibit negotiations with any one who of his own initiative or in response to public advertisement shall apply to a member or associate for employment.

(10) No member or associate shall render or offer to render professional service, the fee for which shall be contingent upon his findings and the results thereof.

(11) No member or associate of the Institute shall advertise his or her professional attainments or service through the mails, in the public prints, by circular letters or by any other written word except that a member or an associate may cause to be published in the public prints what is technically known as a card. A card is hereby defined as an advertisement of the name, title (member of American Institute of Accountants, C. P. A., or other professional affiliation or designation), class of service and address of the advertiser, without any further qualifying words or letters or in the case of announcement of change of address or personnel of firm the plain statement of the fact for the publica-

tion of which the announcement purports to be made. Cards permitted by this rule when appearing in newspapers shall not exceed two columns in width and three inches in depth; when appearing in magazines, directories and similar publications cards shall not exceed one-quarter page in size. This rule shall not be construed to inhibit the proper and professional dissemination of impersonal information among a member's own clients or personal associates or the properly restricted circulation of firm bulletins containing staff personnel and professional information.

(12) No member or associate of the Institute shall be an officer, a director, stockholder, representative, an agent, a teacher or lecturer, nor participate in any other way in the activities or profits of any university, college or school which conducts its operations, solicits prospective students or advertises its courses by methods which in the opinion of the committee on professional ethics are discreditable to the profession.

### **Election of Applicants**

In the absence of protest from the membership, the president of the American Institute of Accountants declared the following applicants elected as members and associates, as of October 7, 1929, in accordance with the recommendation of the board of examiners approved by the council at its meeting on September 16th:

#### *Advanced to membership:*

Ben S. Naven, Chicago  
Charles E. Procasco, Harrisburg, Pa.  
Henry M. Thomson, Los Angeles

#### *Admitted as members:*

James L. Benson, Baltimore  
Alfred Bernard Cipriani, New York  
Robert T. Cunningham, Dallas  
Malachi A. Finnen, New York  
William H. Funk, Philadelphia  
Felix E. Mueller, Joplin, Mo.  
Leslie Croft Nye, Chicago  
Harry Merrick O'Loughlin, Detroit  
J. Frank Pflug, Kansas City  
Frank C. Taylor, Beaumont, Texas  
James R. Yates, Baltimore

#### *Admitted as associates:*

H. E. Harmon, Chicago  
John Henry Schneider, Chicago

### **American Institute of Accountants Examinations**

The semi-annual written examinations of the American Institute of Accountants will be held November 14th and 15th. Examinations will be held at the offices of the Institute in New York and at the offices of members in other cities near the places where candidates reside. The schedule of examinations is as follows:

November 14, 1929, 9 a.m. to 12:30 p.m.—  
Auditing.

November 14, 1929, 1 p.m. to 6 p.m.—  
Accounting Theory and Practice, Part I.

November 15, 1929, 9 a.m. to 12:30 p.m.—  
Commercial Law.

November 15, 1929, 1 p.m. to 6 p.m.—  
Accounting Theory and Practice, Part II.

### **Committee Appointments**

The president of the American Institute of Accountants has appointed some of the Institute committees to serve for the year 1929-1930, as follows:

#### **COMMITTEE ON BUDGET AND FINANCE:**

Victor H. Stempf, *Chairman*, New York  
John S. Snelham, New York  
Robert G. Sparrow, New York

#### **COMMITTEE ON BY-LAWS:**

John P. Archer, *Chairman*, New York  
Harold R. Caffyn, New York  
Charles L. Swearingen, Ohio

#### **COMMITTEE ON CREDENTIALS:**

Thomas H. Lawrence, *Chairman*, Colorado  
Everett C. Babcock, Nebraska  
David B. Peter, Missouri

#### **COMMITTEE ON EDUCATION:**

##### *For one year:*

John R. Wildman, *Chairman*, New York  
David Himmelblau, Illinois

##### *For two years:*

James O. McKinsey, Illinois

##### *For three years:*

J. Hugh Jackson, California  
G. V. W. Lyman, Louisiana

#### **COMMITTEE ON FEDERAL LEGISLATION:**

Charles R. Trobridge, *Chairman*, New York  
N. L. McLaren, California  
Lewis A. Oates, Florida

#### **COMMITTEE ON MEETINGS:**

Clem W. Collins, *Chairman*, Colorado  
John M. Gilchrist, Nebraska  
Leon E. Williams, Colorado

#### **COMMITTEE ON STATE LEGISLATION:**

Edward E. Gore, *Chairman*, Illinois  
M. H. Barnes, Georgia  
John G. McIntosh, Washington

#### **SPECIAL COMMITTEE ON ADMINISTRATION OF EN- DOWMENT:**

George O. May, *Chairman*, New York  
Archibald Bowman, New York  
Charles S. Ludlam, New York  
Arthur W. Teele, New York  
Arthur Young, New York

#### **SPECIAL COMMITTEE ON COÖPERATION WITH AR- BITRATION ASSOCIATIONS:**

A. S. Fedde, *Chairman*, New York  
A. F. Wagner, Minnesota  
William Whitfield, Oregon

## *Bulletin of American Institute of Accountants*

### **SPECIAL COMMITTEE ON COÖPERATION WITH BANKERS:**

William B. Campbell, *Chairman*, New York  
Anson Herrick, California  
Arthur F. Lafrentz, New York  
William H. West, New York

### **SPECIAL COMMITTEE ON COÖPERATION WITH BUREAU OF ECONOMIC RESEARCH:**

Allan Davies, *Chairman*, New York  
James J. Hastings, New Jersey  
Ernest E. Wooden, Maryland

### **SPECIAL COMMITTEE ON DEFINITION OF EARNED SURPLUS:**

Arthur Andersen, *Chairman*, Illinois  
Eric L. Kohler, Illinois  
John Medlock, Illinois  
John A. Stolp, Illinois

### **SPECIAL COMMITTEE ON NATURAL BUSINESS YEAR:**

Hiram T. Scovill, *Chairman*, Illinois  
Eustace LeMaster, Washington  
Harold A. Wythes, New York

### **SPECIAL COMMITTEE FOR PLACEMENTS:**

Warren W. Nissley, *Chairman*, New York  
Peter S. Barton, Illinois  
William H. Bell, New York  
Walter S. Gee, New York  
Archie M. Peisch, New Hampshire

### **SPECIAL COMMITTEE ON TERMINOLOGY:**

Walter Mucklow, *Chairman*, Florida  
William B. Franke, New York  
F. W. Thornton, New Jersey

## **Proposed Change in Method of Calculating Depletion**

A preliminary report of the congressional joint committee on internal-revenue taxation, made public September 23rd, submits three new plans for determining depletion allowances under federal tax laws, with particular reference to mines and quarries. The methods suggested as alternatives for the present system are (1) a fixed rate per unit, allowing a specified amount per pound of the mineral sold (a method used in Canada) and (2) the percentage-of-gross-income method (submitted to the ways and means committee during its consideration of new tax legislation), and (3) depletion based on percentage of net income.

It is said in the report that the existing provisions for determining depletion are inequitable and in some cases result in excessive allowances; that they present grave administrative difficulties and lead to instability of revenue. Every revenue act since 1916 has required valuation of natural resources for depletion purposes, a task of

great magnitude and one in which wide divergence of opinion is bound to occur.

The three methods at present employed by the bureau of internal revenue to value properties for depletion are known as the comparative-sales method, the prevailing-royalty method and the analytic-appraisal method. The report intimates that all are open to criticism on the ground of impracticability or inequitable results.

The report has been ordered printed for information and discussion, but has not yet been approved by the committee.

## **Scientific Cost Accounting for Postal Service**

Frederic A. Tilton, third assistant postmaster general of the United States, announced recently that plans for revision of the accounting system of the post-office department are progressing satisfactorily. Mr. Tilton, who is a member of the American Institute of Accountants, is conducting a survey to discover weaknesses in the accounting and business procedure of the department.

## **English Accountants Entertained at Toronto**

Members of the Ontario Institute of Chartered Accountants were hosts at dinner September 20th in honor of members of the Institute of Chartered Accountants in England and Wales. Sir William Plender and Lady Plender, William Cash, the Hon. George Colville and F. C. Marsh were the English guests. H. Percy Edwards, president of the Ontario Institute, presided.

## **Autumn Convention, American Management Association**

At the autumn convention of the American Management Association to be held at the Hotel Statler, Detroit, Michigan, October 29 to November 1, 1929, the following subjects will be discussed: mergers and consolidations; fashion, style and art in business; compensation of executives; research activities of companies; pensions; employee training; executive training programmes; standardizing, measuring and compensating for office work; branch-office management. Non-members of the association may register at the meeting for a fee of \$5, according to the programme.

## **Semi-annual Meeting of the Cost Association of the Paper Industry**

At the twenty-third semi-annual meeting of the Cost Association of the Paper Industry, held at the Hotel Wausau, Wausau, Wisconsin, September 19th to 21st, two public accountants had places in the programme. Charles Passmore spoke on "Use of standards in paper-mill accounting" and Newton V. Wagner spoke on "Financing in pulp and paper mills." Other subjects discussed were profits, standard depreciation rates, standards in the paper industry, technical control in the paper mill, cost of casing, the cost accountants' place in the paper industry, rated-machine capacities and their compilation, pulp-wood costs as affected by regional competition, accounting for selling and distribution expenses. These papers will be reprinted in forth-

coming issues of *Pulp and Paper Profits*, official publication of the association.

## **Change in Personnel of Iowa Board**

Following passage of the new accountancy law of Iowa during the 1929 session of the legislature, a new board of accountancy for the state has been appointed. E. G. Prouty is the only member of the new board who held a place on the former one. The other new members are I. B. McGladrey and F. L. Finnigan. Mr. Prouty is chairman and Mr. McGladrey secretary-treasurer of the board.

## **Wilbur Lake Harrison**

Wilbur Lake Harrison, former secretary of the American Society of Certified Public Accountants, died September 18, 1929, at his home in Washington.

## **STATE LEGISLATION**

### **Idaho**

An amendment to a law of Idaho with reference to the renewal of licences for professional practice passed at the recent session of the legislature and was approved by the governor. Following is the text of the act as it reads at present. New matter is in italics.

AN ACT AMENDING SECTION 337 OF THE 1919 IDAHO COMPILED STATUTES AS AMENDED BY CHAPTER 211 OF THE 1921 IDAHO SESSION LAWS AND CHAPTER 243 OF THE 1927 IDAHO SESSION LAWS, BY PROVIDING FOR A METHOD OF REINSTATING A LICENCE THAT HAS BEEN CANCELED FOR A PERIOD OF MORE THAN FIVE YEARS.

*Be it enacted by the legislature of the state of Idaho:*

SECTION 1. Section 337 of the 1919 Idaho compiled statutes as amended by chapter 211 of the 1921 session laws and chapter 243 of the 1927 session laws is amended to read as follows:

SEC. 337. Same: Renewal of licence.

All persons required to procure licences from the department of law enforcement as a prerequisite for engaging in a trade, occupation or profession must annually renew the same on July 1st of each year. In case of failure so to renew a licence, the department shall cancel the same, October 1st, following date of delinquency; provided, however, that the department may reinstate any licence canceled for failure to renew the same on payment of \$10, together with all fees delinquent at the time of cancellation and the renewal fee for each year thereafter up to the time of reinstatement.

*Provided further, that where a licence has been canceled for a period of more than five years, the person so*

*affected shall be required to make application to the department of law enforcement, using the same forms and furnishing the same information as required of a person originally applying for a licence, and pay the same fee that is required of a person taking the examination in the particular profession in which said person holds a canceled Idaho licence. Said applicant shall appear in person before the department of law enforcement at any regular or special meeting for an examination, the nature of which shall be determined by the department. If after an examination the department is of the opinion that the person examined is the bona fide holder of the canceled licence, is of good moral character and, if found capable of again practicing in this state the profession for which the original or canceled licence was granted, the licence shall be reinstated and the holder thereof entitled to practise subject to the laws of this state.*

### **Indiana**

At the 1929 session of the legislature of Indiana a law was passed providing that companies not organized under the laws of Indiana, engaged within the state in certain businesses involving instalment sales, be required to submit annual reports to the state auditor and pay a licence fee. The text of the act is as follows:

AN ACT PROVIDING FOR ANNUAL REPORTS TO THE AUDITOR OF STATE BY COMPANIES NOT ORGANIZED UNDER THE LAWS OF INDIANA AND ENGAGED IN THE BUSINESS OF FINANCING SALES OF AUTOMOBILES, RADIOS AND OTHER PERSONAL PROPERTY IN INDIANA; FOR THE FIXING OF A LICENCE FEE UPON THE RIGHT TO TRANSACT SAID BUSINESS; FOR THE WITHDRAWAL OF PERMISSION TO DO BUSINESS UPON FAILURE TO

PAY SAID LICENCE FEE; AND FOR SUITS FOR COLLECTION OF SAID LICENCE FEE.

Foreign finance companies—reports and fees concerning business in Indiana.

SECTION 1. *Be it enacted by the general assembly of the state of Indiana,* That every finance company, or company now engaged or which shall hereafter be engaged in the business of financing sales of personal property, such as automobiles, radios and other articles of personal property, on instalments, and receiving in connection with said business notes or conditional sale contracts or other evidences of debt, which company is not organized under the laws of this state and is doing business in this state, shall on February first of each year, report to the auditor of state, under oath of the president and secretary of said company, the gross amount of all of said transactions entered into by said company, such gross amount being the total face value of the notes, contracts or other evidences of debt purchased, discounted or otherwise received in connection with said transactions, during the twelve months immediately preceding January first of that year (except that the first report, due February 1, 1930, shall only include the gross amount of said transactions for the seven months immediately preceding January 1, 1930) with residents of the state of Indiana, and as a part of said company's Indiana business, and said company shall, at the time of making such report, pay into the treasury of the state of Indiana the sum of

fifty cents on every one hundred dollars of such gross amount, which sum shall be credited to the general fund of the treasury of the state of Indiana. Said licence fee shall be in addition to any taxes or fees now required, or which may be hereafter required, by the laws of the state of Indiana. If any such company shall fail for more than thirty days after said February first to render an accurate account of such gross amount or shall fail within that time to pay the required licence fee thereon, it shall be the immediate duty of the auditor of state to so report to the secretary of state and to the attorney-general of the state of Indiana, and it shall be the duty of the secretary of state to revoke all authority of any such defaulting company to do business within this state while said company shall remain in default, and it shall be the duty of the attorney-general of the state of Indiana to bring an action, in the name and for the benefit of the state of Indiana, against said company in any circuit or superior court having jurisdiction, to recover said licence fee, together with seven per cent. interest thereon from the day said licence fee first became due. If the attorney-general shall fail to bring said action within sixty days from said February first, any citizen of the state may bring said action, in the name and for benefit of the state of Indiana, and in the suit so brought the judgment shall include the amount of said licence fee together with seven per cent. interest thereon from the day said licence fee became due and a reasonable attorney's fee to be paid to the attorney for said plaintiff.

## NEWS OF LOCAL SOCIETIES

### California State Society of Certified Public Accountants

#### SAN FRANCISCO CHAPTER

At a meeting of the San Francisco chapter of the California State Society of Certified Public Accountants to be held at the Engineers' club, October 16, 1929, certified public accountants who were granted their certificates at the August, 1929, meeting of the state board of accountancy will be guests of the chapter. Harold J. Jarvis, general manager of the Transportation Guarantee Company, will deliver an address on "Transportation and its cost accounting."

### Massachusetts Society of Certified Public Accountants

The first regular meeting of the current year was held by the Massachusetts Society of Certified Public Accountants at the chamber of commerce, Boston, September 23rd. About 40 members attended.

Harvey S. Chase and Herbert F. French, the only members of the society who were charter members of the original account-

ing organization in the state, the Massachusetts Society of Public Accountants, organized in 1900, were unanimously elected honorary members of the Massachusetts Society of Certified Public Accountants.

Members who had been present at the international congress on accounting presented summaries of some of the addresses which had been made at the congress. It was announced that at the next meeting of the society D. T. Farnham of New York would be the principal speaker.

Plans have been made for a dinner to be tendered in November to candidates who passed the C. P. A. examinations of May, 1929. A medal will be presented to the candidate who obtained the highest marks in the examinations.

### Minnesota Society Elects Officers

At a meeting of the Minnesota Society of Certified Public Accountants on September 24th the following officers were elected: president, Arthur E. Low; first vice-president, Jarl Hanson; second vice-president, L. J. Byers; secretary, Edwin L. Pearson; treasurer, E. A. Waldo.

The meeting was unusually well attended. More than seventy per cent. of the membership was either present in person or represented by proxy.

### **All-day Conference of New York State Society**

An all-day and evening conference of the New York State Society of Certified Public Accountants will be held October 16th at the Hotel Pennsylvania, New York. The morning session will be devoted to discussion of investment trusts, in which the following will participate: E. Stanley Glines, vice-president and executive secretary of the American Founders Corporation; Warren M. Persons, economist for Goldman-Sachs Trading Corporation and a director of the National Investors Corporation, and George P. Auld, chairman of the society's special committee on investment trusts.

The president of the society is expected to present a report on a survey of accountancy legislation.

Frederick H. Hurdman, president of the American Institute of Accountants, has arranged a discussion for the afternoon on the Federal Reserve Board pamphlet, "Verification of financial statements," which was prepared by a committee of the American Institute of Accountants. Several prominent members of the accountancy profession from New York State will speak on different sections of the pamphlet.

The evening session will be devoted to résumé and discussion of papers presented at the international congress on accounting held in New York during the week of September 9th. The subjects to be presented are legislation, education, depreciation, balance-sheets, cost accounting and budgets.

### **New Officers for Ohio Society**

The annual meeting of the Ohio Society of Certified Public Accountants was held at the Cincinnati club, Cincinnati, October 11th and 12th. The following officers were elected:

President, L. G. Battelle; vice-president, J. D. Cherrington; directors, W. D. Wall, Ralph Mateer, C. F. Flanders, C. H. Wideman. A secretary-treasurer will be elected later.

### **Texas Accountants to Coöperate with Bankers**

J. R. Nelson, president of the Texas Society of Certified Public Accountants, has announced that the society will attempt during the coming year to effect closer co-operation between bankers and accountants in the state. Arrangements have been made for a joint meeting of the Dallas chapter of the society and Dallas bankers, at which it is hoped to clarify in both groups problems relative to financial statements and procedure in audits on which the statements are based. Similar gatherings will be encouraged in other parts of the state, in the hope that by the time of the annual meeting of the state society in November a state-wide programme may have been arranged. Mr. Nelson, in his statement, refers to conditions in California, where formal resolutions on matters of mutual interest have been adopted by the state society of certified public accountants and by the bankers' association.

### **Virginia Society of Public Accountants**

The annual meeting of the Virginia Society of Public Accountants was held at the Richmond hotel, Richmond, September 28th. Election of officers resulted as follows: president, John J. Sellers; vice-president, J. A. Rennie; secretary-treasurer, A. Vernon Sheffield.

It was decided to change the name of the society to Virginia Society of Certified Public Accountants. The president was instructed to appoint a committee to revise the constitution and by-laws to conform to this decision. It is intended that non-certified accountants may be admitted to the society as associates.

Richmond was selected as the place for the spring meeting of the society in 1930.

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Earl Ainslie, who retired from public practice several years ago, announces his return to the practice of accountancy under the style of Ainslie & Co., with offices in the Public National Bank building, Houston, Texas.

Announcement has been made by Harris, Kerr & Cook, 347 Madison avenue, New York, that Allan C. George and Murray Rappaport have been admitted to partnership in the firm.

## COURT DECISION

### State Board Not Authorized to Reinstate Canceled Certificate

In the case of *Wright v. Aldridge, et al.*, the supreme court of Alabama decided that a state board of accountancy has no authority to revive and restore to life a C. P. A. certificate previously revoked or canceled, or to reinstate the former holder of such certificate as a certified public accountant.

The text of the opinion is as follows:

*Wright v. Aldridge et al., Members of Alabama Board of Public Accountancy.*

(3 Div. 890.)

Supreme court of Alabama. May 23, 1929.  
Rehearing denied June 27, 1929.

Appeal from circuit court, Montgomery County;  
Leon McCord, judge.

Petition of Percy V. Wright for mandamus to M. W. Aldridge and others, as members of the Alabama board of public accountancy. From a judgment sustaining a demurrer to the petition and dismissing it, petitioner appeals. Affirmed.

James S. Edson, of Birmingham, for appellant.

W. B. Harrison, of Birmingham, for appellee.

BROWN, J. The appellant filed his petition in the circuit court of Montgomery county, alleging that prior to the month of September, 1921, "he was a duly licensed certified public accountant and as such was engaged in the practice of his profession at Montgomery, Alabama, having theretofore been duly licensed" by the Alabama board of public accountancy; "that during the month of September, 1921, the said board entered an order revoking his certificate because of certain unprofessional conduct alleged to have been practised by" him; that during the month of December, 1928, he filed with the secretary of the board a petition for reinstatement "and for the return of his certificate as such certified public accountant; that upon the filing of said petition, as aforesaid, a date was set for the hearing thereof; that upon the hearing of said petition for reinstatement" the said board "entered an order or decree refusing to take jurisdiction of and to entertain said petition and denying the application of your petitioner on the ground and for the alleged reason that said board had no jurisdiction or authority to entertain said petition for reinstatement," and praying that a writ of mandamus be granted, commanding the board of public accountancy to take jurisdiction of and hear the petition for reinstatement.

The respondent board, waiving the issuance of the rule nisi, appeared and filed a demurrer to the petition, asserting that the statute confers on it no authority to reinstate an accountant whose certificate had been revoked. The demurrer was sustained, and, the petitioner declining to plead over, the petition was dismissed.

The statute authorizes the board after an examination testing the knowledge of the applicant as to the "Theory of accounts," "Practical accountancy," "Auditing," "Commercial law as affecting ac-

countancy," and such other branches of knowledge pertaining to accountancy as the board may deem necessary to maintain the highest standard of proficiency in the profession of practical accounting, to issue certificates under their signature and official seal to "any citizen of the United States, residing or having a place for the regular transaction of business in the state of Alabama, over the age of twenty-one years and of good moral character, to charge each applicant for a certificate, a fee not exceeding the sum of twenty-five dollars, the same to be paid when the application is filed. The fund arising from such fees is to be used in paying the expenses of the board, including mileage, hotel expenses and an amount not to exceed ten dollars per day, for the time expended in conducting examinations and issuing certificates. Said board may, in its discretion, register the certificate of any certified public accountant under the law of another state, and may issue to such certified public accountant a certificate which will entitle him to practise as such public accountant and to use the abbreviation 'C. P. A.' in this state, provided the state issuing the original certificate grants similar privileges to public accountants of this state."

The board is given authority to adopt a seal, adopt and enforce all necessary rules, regulations, by-laws, etc., to govern its proceedings and regulate the mode of conducting examinations, and to hold such examination at least twice a year in the city of Montgomery; to revoke, for cause after notice and full hearing to the holder, certificates issued by them, or cancel the registration of certificates registered under the provisions of the statute. Code of 1923, §§ 16-21.

[1] The effect of the holding in *Lehmann v. State Board of Public Accountancy, et al.*, 208 Ala. 185, 94 So. 94, is that the board created by act of 1919, p. 124, now incorporated in the sections of the code, above cited, is a governmental agency, invested with "certain governmental powers;" and, in the more recent case, that some of the powers conferred by the act are judicial or quasi-judicial, subjecting the action of the board to review and revision by the courts. *State ex. rel. Miller v. Aldridge, et al.*, 212 Ala. 660, 103 So. 835, 39 A. L. R. 1470. Nevertheless, it is clear that the board so created is of statutory and limited power, and that it has no powers other than those conferred by the statute of its creation, and, according to the general rule applicable, the exercise of these powers can only be invoked in the manner and mode prescribed by the statute. *Lamar v. Commissioners' Court of Marshall County*, 21 Ala. 772; *Wiley v. State*, 117 Ala. 158, 23 So. 690.

[2] The statute clearly confers no authority on the board, either expressly or by necessary implication, to reinstate one whose certificate has been canceled for unprofessional conduct, or to revive and restore to life a certificate so revoked and canceled; and, if such certificate was restored to the petitioner, it would confer no authority on him to practise as a certified public accountant.

The case of *Ex parte Peters*, 195 Ala. 67, 70 So. 648, is not an apt authority sustaining the appellees' contention. All that was there au-

thoritatively decided was that the supreme court had no jurisdiction to entertain a petition to reinstate an attorney at law so as to authorize him to practise his profession, resting that conclusion on the ground that the jurisdiction of this court in respect to such matters was statutory and strictly appellate. What was said there in respect to the power and authority of the circuit court was dictum. Still, if that dictum is sound, it deals with the jurisdiction and powers of the circuit court, a creature of the constitution clothed with the general power of administering justice, and on fundamental

principles invested with extensive inherent powers. 7 R. C. L. 1033, § 62.

[3] It is too well settled to require the citation of authority that mandamus will not be issued to compel the doing of a useless act. If the appellant desires to practise as a certified accountant, he may apply to the board for the issuance of a certificate as provided by the statute.

The judgment of the circuit court is free from error and will be affirmed.

ANDERSON, C. J., and SAYRE and THOMAS, JJ., concur.

## EMPLOYMENT EXCHANGE

As evidence of the increasing usefulness of the employment exchange it is interesting to note that, while the total number of positions filled by the employment exchange during the first year of its existence was 20, since the beginning September 1, 1929, 7 applicants have been placed. The members of the American Institute of Accountants, who are largely employers, have speedily recognized the convenience of the facilities of the exchange and for that reason an increasing number of open positions is coming to attention. The problem of the past, however, which continues at the present time, is that of acquainting staff accountants with the opportunities at hand. The number of positions open often exceeds the number of applicants available who are qualified to fill them.

From the experience of the past month it is expected that the exchange will be called on to a large extent to supply assistants during the busy winter season and, therefore, a previous request is repeated: that members coöperate by referring to the exchange any promising applicants whose services they themselves are unable to use.

Following are some of the applicants now available. No investigation has been made.

No. 53A—Member, American Institute of Accountants, C. P. A. (Mass., No. Car.). Age 51. Has been branch manager and contract manager for public accounting firms. 20 years' public practice. Now in North Carolina, wishes change. Prefers Boston. Salary open.

No. 76A—Member, American Institute of Accountants, C. P. A. (Pa.). Thirty years' public practice, 10 years as managing officer of manufacturing company. Age 54. Wishes position in east with private corporation. Would consider salary of \$5,000 or more.

No. 80A—Member, American Institute of Accountants, C. P. A. (N. H.) with 15 years' public practice, chiefly with one large firm, and 4 years as auditor and assistant comptroller in

private company. Wishes to re-enter public practice in New York. Age 40. Salary about \$5,000. Would consider private employment.

No. 44A—Associate, American Institute of Accountants, C. P. A. (Ind., Tenn., Fla.), 6 years' public practice, available for temporary engagement in New York as a senior staff assistant. Age 42.

No. 69A—Associate, American Institute of Accountants. Age 52. Twelve years' public practice. Also has had experience in employ of bank and trust company. Now in Maine. Wishes position in Boston, if possible. Salary \$3,600 or more.

No. 68A—Associate, American Institute of Accountants, C. P. A. (Mass., Florida). Harvard graduate. Five years' public practice and experience as accountant in manufacturing company and as municipal officer. Age 42. Salary open.

No. 77A—C. P. A. (Iowa), age 36, seven years' public practice and 3 years as treasurer of private company. B.A., University of Iowa. Wishes position in Miami, Jacksonville or Atlanta. Now in Iowa. Salary about \$4,000.

No. 71A—Senior accountant, C. P. A. (Fla., N. Y., N. H.), age 32. Available in New York. American, Hebrew. 10 years' public practice with large firm and on own account. Also experience as comptroller and secretary of financial company. No objection to travel. Salary open.

No. 62A—Accountant, age 28, now in Missouri, wishes to move to southern California, Oklahoma or Texas. Three and one-half years' public accounting practice and experience with railroad and industrial companies. Salary open. No objection to travel.

No. 78A—Accountant, age 38, with 2½ years' experience in public practice. Now in Pennsylvania. Will go anywhere. Salary about \$175 a month.

No. 46A—Semi-senior, age 43, with 12 years' experience as staff assistant, available for temporary or permanent engagement in New York.

No. 72A—Candidate for C. P. A. examinations, age 28, with about 2 years' public practice and book-keeping and accounting experience in private concerns wishes position in Kansas City, St. Louis or New York. Now in Alabama. Salary \$250. No objection to travel.

No. 54A—Semi-senior, now in Florida, wishes position in Connecticut or New York. Age 30. More than 6 years' public practice.



# BULLETIN

OF THE

## AMERICAN INSTITUTE OF ACCOUNTANTS

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NOVEMBER 15, 1929

SERIES B, No. 67

### Additional Institute Committee Appointments

The president of the American Institute of Accountants has appointed the following committees for the year 1928-1929:

#### COMMITTEE ON ARBITRATION:

Charles F. Rittenhouse, *chairman*, Massachusetts  
H. C. Crane, Alabama  
Harold C. Jordan, Maine

#### COMMITTEE ON PUBLICATION:

John B. Niven, *chairman*, New York  
William D. Cranstoun, New York  
John C. Scobie, New York

These committees, together with those whose appointment was announced in the October *Bulletin*, constitute the entire group of committees for the current year.

### American Institute of Accountants Examinations

At the C. P. A. examinations of 29 states held November 14 and 15, 1929, the examination questions of the American Institute of Accountants were used. More than 700 candidates were expected to present themselves for examination in these states. Other states and territories which cooperate with the Institute did not hold examinations this fall.

The examiners of the Institute will commence marking papers on November 18th and reports will be sent to state boards of accountancy within 30 days.

Applicants for admission to the American Institute of Accountants sat for the written examinations in Boston, Chicago, Louisville, Minneapolis and New York.

### 1929 Yearbook

The 1929 edition of the *Yearbook* of the American Institute of Accountants was mailed to members and associates November 13th. Any member or associate who does not receive his copy should notify the offices of the Institute. Errors in the *Yearbook* should be reported promptly so that the official records may be corrected.

Extra copies of the book may be obtained at a price of \$1.65 delivered in the United States and Canada.

The book contains a list of officers, members of council, committees, members and associates; a summary of the proceedings of the annual meeting of the American Institute of Accountants at Washington, D. C., September 16 to 19, 1929; reports of officers, council and committees; a list of members of state boards of accountancy, and reprints of the by-laws, rules of professional conduct and rules of the board of examiners of the American Institute of Accountants.

### Annual Meeting of Institute in 1930

The new committee on meetings of the American Institute of Accountants is already engaged in making plans for the meeting at Colorado Springs in September, 1930. The place presents such unusual advantages for sport and for enjoyment of natural beauties that the programme will probably be arranged to permit the members liberty during a large part of each day.

Members whose vacation or business will take them to the western part of the country

at the end of the summer are planning to include the Institute's meeting in their stay.

The committee on meetings consists of Clem W. Collins, chairman, John M. Gilchrist and Leon E. Williams.

### **Conduct of an Accounting Practice**

As a result of a notice in the October *Bulletin* that the discussion which took place at the annual meeting of the American Institute of Accountants on the conduct of an accounting practice would be reprinted in pamphlet form, many orders for the pamphlets have been received.

It has been decided to send a copy gratis to each member and associate of the American Institute of Accountants. These copies will probably be mailed with the December *Bulletin*. Extra copies will be sold at 25 cents each.

The matter has been set in type and is now on the press. The pamphlets will be ready for distribution in the near future.

### **George F. Horn**

George F. Horn, a charter member of the American Institute of Accountants, died October 9th. He was a certified public accountant of New York and was in practice on his own account at the time of his death.

### **Chamber of Commerce Referendum Fails to Approve Calendar Reform**

The recommendations on calendar reform recently submitted for referendum by the Chamber of Commerce of the United States of America, as announced in the *Bulletin* of the American Institute of Accountants for October, 1929, failed to obtain approval of the required majority of voting members of the chamber. Sixty-six per cent. of the eligible voters expressed opinion on the three questions propounded and although a majority of the vote was in the affirmative the questions failed to obtain the required approval of two thirds of those voting. The executive committee of the American Institute of Accountants cast an affirmative vote on the questions.

### **Northern Ohio Chapter of Institute Meets with Bankers**

On October 28th the annual meeting of the Northern Ohio chapter of the American Institute of Accountants took place at

Cleveland with 20 members of the chapter present. Invitations had been sent to the local chapter of the Robert Morris Associates and the Cleveland chapter of the Ohio Society of Certified Public Accountants, with the result that there were 32 guests at the meeting. The subject of discussion was the federal reserve board pamphlet, "Verification of financial statements." W. P. Moonan was the chief speaker and his address was followed by lengthy discussion by the bankers and accountants. The following directors were elected: W. J. Taylor, Floyd Chilton, Lewis Wintermute, Frank L. Zwemer and W. P. Moonan. At a directors' meeting held later the following officers were elected: W. J. Taylor, president; Floyd Chilton, vice-president; Lewis Wintermute, secretary and treasurer.

### **Bankers Recommend that Clients Give Accountants More Latitude**

More latitude for the accountant in his investigations to determine financial condition is recommended in a report of the Robert Morris Associates committee on co-operation with public accountants, presented at a meeting of the association at Pittsburgh on October 22nd. The report also relates various activities of the committee, principally inquiries into questions of accounting practice and procedure. The full text is as follows:

In consonance with the general thought running through this meeting of the Robert Morris Associates, that is to say, the problems faced by our customer and ways and means for the banker to be of help to him, our committee would like to offer this suggestion. Experience in innumerable cases has shown that books of account are not being maintained by the customer according to up-to-date methods, faults having been allowed to creep in over a period of time, and as a result the customer is misled by figures given to him by his subordinates as to current position, operations, etc., and even the audited statement may not reflect as correct and comprehensive a showing as should be the case. The remedy for this would lie in the customer's giving the accountant a broader assignment when he audits the books, welcoming any suggestions the accountant might make as to improvements in methods, etc. It is our duty to urge this on our customers and in this way accomplish two desirable results: first, we are making a constructive suggestion for the benefit of the customer, and, second, the financial statement, when it comes to us, will be entitled to more confidence. This thought is subject to considerable elaboration on the part of each one of us individually.

## Bulletin of American Institute of Accountants

Since the last meeting various matters have come to the attention of the committee which as usual we embrace in our report for your information and consideration.

### CONTRACTUAL LIABILITIES

A not unusual practice is for a corporation to organize a 100%-owned subsidiary to build and operate a plant. After advancing certain sums of money to the subsidiary corporation to build the plant, the subsidiary will pay back these advances through the medium of a bond issue which will not be guaranteed by the parent company but the bonds will be sold based upon a lease under the terms of which the parent company will pay all fixed charges and expenses of the subsidiary including an amount sufficient to meet the interest on the bonds and the principal as it matures. Technically this may not be a recognized statement liability, direct or contingent, but practically it would seem to be nothing else but. In two cases that have come to our attention the lease was featured in the bond-offering circular as equivalent to a guaranty of the bonds, and where the accountant fails to mention it on the statement of the parent company he is lending himself to a desire on the part of the principal to eat his cake and have it too.

In one instance, the bonds were covered by a repurchase agreement of the parent company and still the accountant did not refer to it, which, however, he admitted was an oversight. It is clear in our minds that under such circumstances honest accounting requires that a footnote should refer to the bond issue or a consolidated statement should be submitted.

### "FAIRLY" OR "SUBSTANTIALLY"

We occasionally see certificates to the effect that the showing "fairly" sets forth the position of the client, and in other cases "substantially" sets forth the position. Acting on the assumption that the accountant had a real purpose in using either one of these words—otherwise they would have been omitted—we wrote to one accountant who had used "substantially" in his certificate and received a reply as noted below. This letter in connection with the comments that follow it will indicate how far accountants are from agreement among themselves as to the interpretation to be put on these two words. The letter read:

"The word 'substantially' in the certificate referred to is intended, not as a qualification, but to be taken at its dictionary meaning of 'essentially' or 'competently.' The sense of the certificate would not be altered by the omission of this word, which was inserted for the purpose of placing stress on the auditor's opinion that all essential facts had been ascertained and adequately set forth. The use of the word in an auditor's certificate is not by any means original with us, as I have frequently seen it used in the same way in certificates issued by both New York and Boston accountants. I do not find any definition given in the standard dictionaries under which the word 'substantially' could possibly be construed as a qualification."

Later on our attention was attracted to the fact that in a statement of December 31, 1928, an accountant used the word "substantially," whereas

in the statement of the same corporation for December 31, 1927, he had used the word "fairly." His explanation was that the client had objected to the use of "fairly" feeling that inferred a qualification, whereas "substantially" did not. I then told the accountant of our assumption that the use of either word indicated a qualification of some kind, to which his reply was that in a corporation of the size and character of the one under consideration there was a possibility that each item might not be absolutely and exactly correct, but that for credit purposes it might be considered that the accountant used such words for technical reasons and that whatever discrepancy might exist it was the opinion of the accountant that it had no material effect upon the showing.

We then called for a ruling from the committee on cooperation with bankers of the American Institute of Accountants, which read as follows:

"The word 'substantially' does imply a qualification. It seems to us that an accountant using the phrase 'substantially sets forth' must have in mind that there is some matter of presentation or some figures with which he is not in complete agreement, and, therefore, he uses a word which means 'in the main.' I may say that I do not recall having seen the phrase in the accountant's certificate on any of the larger companies.

"On the other hand, we feel that the term 'fairly sets forth' does not imply any qualification; it is used in the sense of 'honestly sets forth.' As you know, there are various ways of stating certain of the assets in a balance-sheet and certain recognized bases of valuation. For instance, any accountant would certify a balance-sheet which included land, buildings, machinery and equipment at cost, less a reasonable provision for depreciation. He would also certify the same balance-sheet if these same assets were stated on the basis of an appraisal showing reproductive values, less the appraiser's allowance for accrued depreciation.

"It is difficult to use the word 'true' in such circumstances, but so long as the basis of valuation is shown in the balance-sheet the accountant can certify that either statement 'fairly sets forth' the financial position of the company, which means the financial position on the basis indicated in the statements themselves. We feel, therefore, that the words 'substantially sets forth' do imply some qualification while the term 'fairly sets forth' may be used in an unqualified certificate."

### CERTIFICATES

In a number of previous reports we have laid emphasis upon the desirability of a careful reading of certificates and we would cite the following instances that have come to our attention recently:

1. A paragraph in a certificate commented to the effect that the collectability of the notes and accounts receivable was discussed with a responsible official of the company and the accountant was advised that all accounts considered uncollectable had been charged off. As the same certificate embraced a number of qualifications including a phrase to the effect that the accountant had not examined or investigated the status of the mortgages or other collateral pledged to guarantee the payment of previously sold outstanding securities, the banker who had this up for consideration was careful

enough to read in to the first paragraph a suggestion that the accountant had some doubt in his mind as to the collectability of the accounts. This turned out to be the case and the company went into receivership within five months of the date of the audit. It seems inconceivable that a representative accounting firm should lend themselves to such a hybrid product, but they, of course, would have the usual defense that the qualifications were there, that those who ran might read.

2. A statement showed a segregation of accounts receivable into two divisions, those less than 60 days past due, and those over 60 days past due. As a matter of fact 12% of the total receivables were from 3 to 4 years past due.

3. A certificate read to the effect that "we have completed the audit of your books and accounts for the three-months' period ended July 31, 1928, in the usual manner employed by us in the past." It developed that what the accountant meant by this was that he had not taken or checked the inventory, and, therefore, was not in a position to give an unqualified certificate.

4. A certificate read: "Subject to the foregoing comments we certify that the attached balance-sheet presents the financial position of the firm at December 31, 1928, combined with the real estate and personal investments of the members of the firm at that date." Here is a phrase to which we would recommend your prayerful consideration, for it developed that the accountants had audited the books of the firm but not the books of the partners individually, and that is what they expected one to read into the certificate because of the precise way in which this sentence had been worded. They claimed they checked over the securities and real-estate holdings of the partners and threw these into the combined statement, but they were not in a position to certify as to whether the partners had any personal liabilities. It seems to us that this is entirely too fine a construction to put on such a sentence and we advised the accountants that if in case of trouble it developed that the partners did owe money personally, we felt the accountants would be held at least morally responsible for a misleading statement. The way to obviate this would have been to have concluded the paragraph with the words: "as submitted to us."

5. A financial statement put out by a commercial-paper broker bore an unqualified certificate, whereas the bank which had the account obtained a detailed audit certified to the effect that it was correct subject to certain comments, one comment referring to the fact that the inventory was taken by the management, the verification by the accountant being confined to a test of mathematical computation and method of pricing. The question we raised was why the accountant should give on one statement an unqualified certificate and on another a qualified certificate. The substance of the accountant's explanation was that in the case of condensed reports he tried to put himself in the position of the credit man who he felt would not be interested in any comments or qualifications that would not naturally affect his determination as to the desirability of the risk, whereas in the detailed report he felt he must cite things which the officers of the company would be interested in knowing for their own control of affairs and to clarify as to what re-

sponsibility he assumed for his work. As he put it, they thought best to disclaim responsibility as a precautionary measure even though they did their utmost to make sure that everything was correct.

6. The statement of a well known concern with many accounts in New York bears a certificate of the accountants to the effect that they have examined the books of this particular firm and "have prepared in accordance with instructions" the balance-sheet which they certify to be a true and correct exhibit of the firm's affairs "as shown by the books." The latter phrase is one that occasionally appears in a certificate, but the former is a new one to us, and we hope that the banks who have been lending this concern for years do not consider that they have an audited statement that is worth its name.

Respectfully submitted,

JOHN CLAYTON

J. M. EATON

P. F. GRAY

G. A. VAN SMITH

H. S. WASS

H. E. WHITNEY, *chairman.*

### **P. W. R. Glover Appeals for Coöperation between Bankers and Accountants**

P. W. R. Glover, in an address before a joint meeting of the Buffalo chapter of the New York State Society of Certified Public Accountants and the Robert Morris Associates at Buffalo, October 30th, pointed out several ways in which accountants and bankers could assist one another in preparation and use of financial statements for credit purposes.

Mr. Glover is a member of the executive committee of the American Institute of Accountants and president of the New York State Society of Certified Public Accountants.

In view of the confidential nature of communications between the accountant and his client, which prevents discussion of a client's affairs with the banker except by specific permission of the client, Mr. Glover recommended that the accountant be most particular in preparing the balance-sheet and profit-and-loss statement so that adequate information and all pertinent facts may be included. If it is requested that certain information be omitted which the accountant considers important Mr. Glover recommends that the accountant consider the advisability of refusing to issue the statements over his signature. The accountant should tell his client frankly, Mr. Glover said, what in his opinion it is necessary to disclose in a financial statement for credit purposes, and the accountant

must have the backbone to say "No" at the proper time if the client does not agree with his opinion of what is necessary.

While the accountant should adopt this attitude of concern for the interests of all who may read his statements, foremost among whom is the banker, the banker, on the other hand, may be expected to do his utmost to facilitate the efforts of the accountant to present a picture of the truth, according to Mr. Glover. A request from the banker that the client permit him to consult with the accountant before the examination is begun and to make suggestions upon the scope of the accountant's examination will often be of great assistance to all concerned. Mr. Glover urged the bankers to familiarize themselves with the responsibilities and limitations of the public accountant, who in the very nature of things is largely confined to accounting records in verifying business transactions. Mr. Glover admitted that the division of opinion of accountants themselves on certain questions of procedure might make it a little difficult for bankers to understand the attitude of the profession and he gave as an example the widely debated question of the accountant's responsibility for inventory verification. While in certain cases, he said, accountants may be sufficiently familiar with a particular industry to undertake actual inspection, count and valuation of inventory, in most cases practitioners must be confined to such verification as can be made from the accounting records and in other ways compatible with their training and knowledge as accountants. Mr. Glover predicted that a committee of the New York state society which has been studying this question would decide that the inventory should be verified in the same way as any other asset on the balance-sheet. The speaker also asked the coöperation of bankers in advocating adoption by business concerns of the natural business year, which he said would be a logical change for the industries themselves and would also relieve public accountants of the tremendous pressure to which they are subjected at the close of the calendar year.

As evidence of the spirit of coöperation between accountants and bankers, Mr. Glover mentioned the publication of the federal reserve board pamphlet, "Verification of

financial statements," prepared by a committee of the American Institute of Accountants, which may serve as a guide to bankers as well as accountants. He also mentioned the activities of professional accountants' organizations in disciplining members for unprofessional conduct and maintaining high standards of ethical practice.

Mr. Glover's remarks followed an address by William F. Chase, vice-president of the Marine Trust Company of Buffalo, who expressed the desire that accountants would make their certificates more comprehensive and comprehensible, especially in the matter of inventory verification.

The two addresses were followed by discussion which aroused so much interest that it was decided to hold another meeting of the accountants and bankers next spring or early in the summer.

### **California Bank Requires Audited Statements for Credit**

At a meeting of the Los Angeles chapter of the California State Society of Certified Public Accountants on October 14th, C. A. Rude, second vice-president of the Robert Morris Associates and vice-president of the Citizens National Trust & Savings Bank of Los Angeles, said that his bank extended no credit in excess of \$25,000 without an audited statement from the borrowers and added that this practice had proved so satisfactory that the bank would consider it gratifying if the number of audited statements obtained from customers could be increased at the rate of one per cent. of the number of borrowers each year. He said that the need for simple, direct and positive statements of fact, without ambiguity, is essential in financial statements. He said further that if the accountant signing the statement were authorized to explain and discuss it with the bank, the bankers would have more confidence in the value of the work performed.

Mr. Rude's address was based on the pamphlet, "Verification of financial statements," prepared by a committee of the American Institute of Accountants and published by the federal reserve board.

### **Dallas Accountants Meet with Bankers**

Accountants of Dallas, Texas, held a meeting with representatives of Dallas

banks on October 28th, at which the federal reserve board pamphlet, "Verification of financial statements," prepared by a committee of the American Institute of Accountants, was discussed.

### **Valuation of Capital Assets Discussed at Massachusetts Society Meeting**

At the first meeting of the Massachusetts Society of Certified Public Accountants for the year 1929-1930, W. Webster McCann led a discussion of the method of valuing fixed assets. He presented five theories on the question, at least four of which showed distinctly different views. Papers presented at the international congress on accounting and a paper by J. Hugh Jackson read at a regional meeting of the American Institute of Accountants in 1920 were the bases for Mr. McCann's remarks. He said that the British view, as expressed by Sir Woodburn Kirby, is that assets should be carried on the books at historical cost, although in cases of reconstruction, where a general reorganization of capital account occurs, it is sometimes considered feasible and practicable to resurvey assets on a new basis of value. If values are to be increased in times of rising costs they must be decreased in periods of depression, and to alter historical values in relation to production cost entails labor and expense without any trustworthy result, according to Sir Woodburn Kirby. The difficulty of dealing with surplus arising from revaluation of fixed assets is another argument he presented in favor of the cost basis. Renewal of capital assets is provided for in England by reserves out of profits.

The antithesis of this view, Mr. McCann said, was that of Professor Fritz Schmidt of Germany. He considered present value of primary importance and historical value practically meaningless. Use of original cost, he maintained, results in imaginary apparent profits and apparent losses in the financial statements, while the use of present-day cost value shows the exact fixed capital value invested in the enterprise at the date of the balance-sheet and also facilitates accurate cost accounting. Dr. Schmidt's statement that a uniform measure of value should be applied to all assets was questioned by Mr. McCann, who said that such procedure might prevent pricing in-

ventory at cost or market, whichever is lower, and capital assets at cost for purposes of the same statement.

Another paper on the subject assumes that balance-sheets reflect the past and cost accounting deals with future results, and that cost accounting, therefore, should be constructed on the basis of present values. The writer of this paper says that it is unimportant to know the present market prices of fixed assets acquired years ago, since the first point of interest is the return forthcoming from the capital invested.

An Italian writer believes in what Mr. McCann said to be in effect a basis of cost or market, whichever is lower, asserting that it is advisable to provide for reduction of a balance-sheet value when necessary, but that it is prudent not to carry increases in value resulting from circumstances outside the operations of the enterprise.

To these divergent opinions Mr. McCann added that of Professor Jackson, who, while partly in accord with the English theory, suggested specific provision for replacement in establishing the margin of profit. Mr. McCann's summary of the problem indicated that it is complicated by two things: first, how to determine present-day costs satisfactorily, appraisals not being wholly adequate, and, second, how to write a clear certificate to a balance-sheet without lengthy explanations of how values were determined, which might destroy the public's confidence in the certificate.

### **Present Status of the Macallen Case**

The committee on legislation of the Massachusetts Society of Certified Public Accountants has sent a circular letter to all members of the society describing the present status of the Macallen case. The earlier letter of September 6th, to which the committee refers, was reprinted in the *Bulletin* of the American Institute of Accountants for September, 1929. The text of the later letter is as follows:

On September 6, 1929, we addressed a letter to the members of the society suggesting action to be taken prior to September 20, 1929, on claims for the year 1927 under the Macallen decision. It is the purpose of the present letter to outline the situation to date and indicate action which is desirable at this time.

The United States supreme court on October 14, 1929, denied the petition seeking a re-hearing in the case of the *Macallen Company v. Commonwealth of Massachusetts*. Its former decision, rendered May

27, 1929, therefore stands. As a result, the income portion of the Massachusetts excise tax assessed against domestic business corporations is definitely decided to have been illegal so far as it was based upon interest from obligations of the United States and of instrumentalities and possessions thereof, or from obligations of the commonwealth of Massachusetts and political subdivisions thereof, provided the words "tax exempt" are written on the face of such state, county and municipal obligations.

We recommend that a formal claim for abatement be filed at once on form 382 under section 27, chapter 58, by each Massachusetts corporation whose 1928 return on line D 2, page 4, reported such non-taxable interest.

We recommend that each Massachusetts corporation whose 1929 return reported any such non-taxable interest file a claim for abatement under section 51 of chapter 63, within 60 days from the date of its 1929 tax bill.

The governor and council have requested an opinion from the supreme judicial court of Massachusetts as to whether the decision of the United States supreme court in the Macallen case caused section 52 of chapter 63 to become effective, and it is possible that abatements under Macallen case claims will be delayed for a few weeks, with the expectation that an opinion may be handed down within that time. It is not generally believed that section 52 has become effective, but even if such should prove to be the case, the time limit for filing claims to take advantage of this situation on account of the year 1928 will not expire until September 20, 1930, and we therefore advise that no claims on this ground be filed at this time.

CHARLES F. RITTENHOUSE  
RICHARD D. SEAMANS  
J. CHESTER CRANDELL, *chairman*,  
Committee on legislation.

### **Missouri Attorney-general Rules on Book Accounts for Property-tax Purposes**

The attorney-general of Missouri, in an opinion dated October 10, 1929, says that book accounts representing merchandise already returned for property-tax purposes are exempt from further tax in the same year, although all other credit and book accounts are subject to the law providing property tax on merchandise.

### **Factors Suggest Questionnaire for Accountants**

In the October issue of *Credit Monthly* there is published a form of questionnaire adopted by a firm of factors at the suggestion, it is said, of a firm of certified public accountants. The questionnaire, which is sent to accountants who have signed statements under consideration by the factors, is as follows:

Dear Sir:

Your client(s).....has (have) submitted a statement as of.....a copy of which is hereto attached. In order that we may complete our credit information, we will appreciate your cooperation by the return of this communication with the various questions answered.

1. Do you audit their books monthly?
2. If so, how long have you been doing this work?
3. Did you prepare a certified statement?
4. Are the figures shown on attached form in conformity with your report?
5. Did you verify accounts receivable by direct communication?
6. Did you age accounts receivable?
7. Are any of accounts receivable over 4 months old?
8. Are all accounts receivable for goods sold and delivered?
9. Have all bad accounts receivable been written off?
10. Did you supervise the taking of inventory?
11. Does balance-sheet include all known liabilities?
12. Have you verified all known liabilities by direct communication?
13. Have you any reason to believe that merchandise or accounts receivable are being assigned as collateral for advances or loans?
14. Are the books maintained in good order?

We believe that your client will permit you to cooperate and authorize a full report.

### **New Accountants' Society Being Organized in Iowa**

It has been reported that a committee of accountants in Iowa has completed a draft of charter and by-laws for a proposed new organization of accountants in the state, whose membership will be composed of certified public accountants and public accountants duly registered with the board of accountancy. Actual commencement of the society will be deferred until the board of accountancy has completed registration of public accountants under the law enacted at the 1929 session of the legislature.

### **Federal Reserve Board Rules on Advertisement of Securities**

The *Federal Reserve Bulletin* for September, 1929, contains a warning to national banks acting as trustees under bond issues that misleading statements quoted in advertisements of security issues, intimating government approval or supervision of the security in question, are possible violations of section 1 of the act of May 24, 1926 (44 Stat. 628, United States code, title 12, section 485). The matter arose because of an

advertisement recently issued by a mortgage corporation containing the following statement: "Representatives of the comptroller of the currency, the very people who issue the national bank notes, make regular periodical examinations of the trust which secures \_\_\_\_\_ mortgage corporation bonds." This statement was based upon the fact that the bonds in question were secured by mortgages pledged with a national bank as trustee. The *Federal Reserve Bulletin* states that while it is true that national bank examiners examine trust departments of national banks it is for the purpose of ensuring compliance with the laws and regulations governing conduct of such departments and not for the purpose of passing on the value or adequacy of mortgages pledged with such national banks as trustees to secure bond issues. The advertisement was believed misleading to prospective purchasers of the bonds in question. The use of the objectionable language was terminated through the intervention of the department of justice.

### **French Edition of Cost Manual for Woolen and Worsted Industry**

The cost manual for the woolen and worsted industry prepared by a firm of public accountants under the auspices of the Woolen Institute, publication of which was announced in the *Bulletin of the American Institute of Accountants* for January, 1929, has been translated into French. In the preface to the French edition, by E. Mathon, president of the Central Wool Committee, there is evidence of a strong interest in the principle of standard costs and the benefits to be derived from the use of scientific accounting methods. M. Mathon expresses cordial gratitude to the accountants who collaborated in the preparation of the manual and to the American woolen manufacturers who have, he says, "rendered eminent service not only to their own industry, but also to their colleagues all over the world."

### **Investment Bankers Association Opposes Regulation of Investment Trusts**

Governmental regulation of investment-trust companies was opposed at the annual meeting of the Investment Bankers Association of America, held at Quebec, October 15th, in a report of the investment-companies committee. It was the belief of the committee that most large investment companies are soundly organized and conservatively managed; that their functions are distinct from those of holding companies, finance companies, trading companies, etc., and that regulatory action aimed specifically at investment-trust companies would have no constructive result.

### **First Railroad Valuation on Basis of O'Fallon Decision**

The interstate commerce commission announced on October 15th that it had completed its valuation of the New York Connecting Railroad, the first valuation based on the principles uttered by the supreme court of the United States in the St. Louis & O'Fallon decision last May. The so-called final or primary value given the New York Connecting Railroad, on owned and used property as of June 30, 1918, is \$24,500,000. The statement said that current reproduction costs will be given consideration when this primary valuation is brought down to date. In the primary valuation the cost of reproduction was based on fair average prices for a five or ten year period before June 30, 1914.

### **Railway Accounting Procedure**

A manual entitled *Railway Accounting Procedure*, consisting of 1,002 pages in a cloth loose-leaf binder, has been published by the Railway Accounting Officers Association. E. R. Woodson is editor of the book. Its main topical divisions are freight, passenger, disbursement, statistics, terminal, and overcharge and agency relief claim laws.

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On October 11th, Anson Herrick, San Francisco, addressed Beta Alpha Psi, national accounting fraternity, on "Brokerage accounting." A book on brokerage accounting written by Mr. Herrick was pub-

lished in October by the San Francisco stock exchange. Mr. Herrick's activities also include membership on the hospital cost accounting committee of the hospital council of San Francisco.



## STATE BOARDS OF ACCOUNTANCY

### Alaska

John E. Meals and Barney A. Rosselle have been succeeded as members of the Alaska board of accountancy by Harold H. Post and Harley Turner. Wallis S. George, the third member of the previous board, has become president of the new one. Mr. Post is secretary-treasurer.

### Nevada

It has been reported that E. S. La Tourrette, secretary of the Nevada state board of accountancy, died recently. Notice of election of a successor has not yet been received.

### New Jersey

William H. Compton has been elected president of the New Jersey state board of public accountants. James F. Hughes is treasurer and William Surosky, secretary.

### New York

Henry E. Mendes has been re-elected chairman of the state board of accountancy

of New York. George E. Bennett, a new member, has been made vice-chairman, and Thomas E. Conroy has been re-elected secretary. The other members of the board are Simon Loeb and Edwin E. Leffler.

### Porto Rico

William A. Waymouth and J. E. Soltero have succeeded F. G. Holcomb and Andrew Petersen as members of the board of accountancy of Porto Rico. Antonio R. Hernandez, former secretary, is now chairman of the board. Mr. Waymouth is treasurer and Mr. Soltero, secretary.

### Wyoming

Thomas C. Spears has become a member of the Wyoming board of accountancy to fill the vacancy created by the withdrawal of C. H. Reimerth. Mr. Spears has been elected president of the board. The other members are A. H. MacDougall, secretary, and E. D. Hiskey.

## STATE LEGISLATION

### Oregon Law Requires Uniform Municipal Accounting

At the 1929 session of the Oregon legislature the following act, requiring that the secretary of state prescribe a uniform system of accounting for all municipal corporations of a certain size, was passed and subsequently was approved by the governor:

AN ACT TO PROVIDE A UNIFORM SYSTEM OF ACCOUNTING FOR ALL MUNICIPAL CORPORATIONS, WITH CERTAIN EXCEPTIONS.

*Be it enacted by the people of the state of Oregon:*

SECTION 1. The secretary of state shall formulate and prescribe a standard and uniform system of

accountancy for all municipal corporations; provided, that the provisions of this act shall not apply to any county or any municipal corporation located within any county having a population in excess of 100,000. The secretary of state shall make all rules and regulations necessary to carry out the provisions of this act.

SEC. 2. As soon as practical after the passage of this act the secretary of state shall, after public hearing thereon, adopt and prepare systems of accountancy to be used as provided in section 1 hereof and immediately thereafter he shall forward the same to the proper officer or employee of the unit provided for in section 1. It shall be the duty of all officers and employees of any municipal corporation coming under the provisions of this act to keep or cause to be kept the system of accountancy prescribed by the secretary under the provisions of this act.

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J. Hugh Jackson, California, is author of a new book, *Auditing Problems—a Comprehensive Study in Principles and Procedure*.

J. Brooks Heckert, Columbus, Ohio, spoke on "Accounting for the human element in

business," at one of a series of lectures before summer school students at Ohio State University. The *Accounting Review* for September contained an article on "Methods and advantages of early closing" by Mr. Heckert.

## COURT DECISIONS

### Michigan Court Rules Stock Dividends Part of Corpus of Estate

The supreme court of Michigan recently held, in the case of *Joy's Estate* (255 N. W. 878), that stock dividends paid to trustees under a will are part of "capital" to be awarded to those entitled to the principal or corpus of the trust fund upon its termination. The decision was in accord with the so-called Massachusetts rule, under which all cash dividends are considered income and are paid to the beneficiary of the life estate, while all stock dividends are considered corpus and added to the principal of the trust estate.

In its decision the Michigan supreme court said:

"While the Massachusetts rule may in some cases work a hardship to the life beneficiary in the distribution of the stock dividend, it may also greatly benefit such beneficiary in the distribution of an extraordinary cash dividend, as the surplus from

which it is distributed may represent earnings accumulated before the inception of the trust estate."

### Accountants' Computations Based on Questionnaire to Creditors Held Not Good Evidence

In the case of *McHenry v. Heiderich, et al.* (236 N. Y. S. 1) the supreme court of Madison County, New York, held that testimony of an accountant based on computations largely dependent upon replies to questionnaires sent to creditors is incompetent as hearsay. The court said:

"William Smith, an accountant, was sworn for the plaintiff. He examined the books and papers of the bankrupt in the possession of the trustee, and made certain analyses and drew certain deductions therefrom. On cross-examination it appeared that some of his computations were based on the replies to a questionnaire sent by him to the creditors. All such deductions I have disregarded as hearsay. Indeed, all the facts assumed in this opinion sufficiently appear, independent of any testimony given by Mr. Smith, much of which was competent."

## NEWS OF LOCAL SOCIETIES

### New Officers of Colorado Society

Clem W. Collins was elected president of the Colorado Society of Certified Public Accountants at a meeting held at Denver on September 26th. Other officers elected were W. M. Trant, vice-president; Allen Redeker, secretary; Matthew Fox, treasurer, and Leon Williams, W. J. Thompson, E. O. Williams, directors.

### Meetings for St. Louis Accountants during Current Year

At a meeting of the St. Louis chapter of the Missouri Society of Certified Public Accountants, held at the Kingsway hotel, October 22nd, A. P. Ackerman, industrial engineer, spoke on the future possibilities of the accountant. About 48 people were present.

The chapter plans to hold seven other meetings before the first of July, 1930. Skeleton programmes of these meetings are as follows:

November 21, 1929:

Arrangements in charge of T. F. Leonard.

December 12, 1929:

"Accounting for aviation industries," by George B. Schierberg, treas. of the Universal Aviation Corporation.

January 14, 1930:

"Missouri state income and corporation franchise taxes," by L. D. Thompson, state auditor.

March 27, 1930:

"The trend of borrowed capital," by Lee Daly.

April, 1930:

Joint meeting with the St. Louis chapter of Robert Morris Associates.

May 15, 1930:

Annual meeting of the St. Louis chapter, election of officers.

June 13, 1920:

Annual meeting of the state society, election of officers, banquet, golf tournament, other sports.

### New Jersey Society Plans Activities for Coming Year

Two special committees of the Society of Certified Public Accountants of the State of New Jersey are making plans for the coming year which they hope may result in developments of importance to the profession in the state. The special committee on study of state corporation and tax laws in relation to business, of which Henry B. Fernald is chairman, intends to undertake a careful examination of New Jersey statutes relating to corporate affairs. The study may extend over a period of years and the committee will probably report from time

## Bulletin of American Institute of Accountants

to time after its investigation of particular problems has been completed. When the individual features which seem to come within the committee's scope have been subjected to adequate scrutiny, the interrelation of the various provisions of the different laws affecting business will be considered. Certain criticisms of New Jersey laws dealing with taxation and the regulation of corporations will form the basis for the committee's initial steps, although it is by no means certain that the study will show these criticisms to be justified. Laws of other states will be used for comparative purposes and it is hoped that upon completion of the whole project the committee's final report may lead to recommendations which will improve the statutes whose provisions materially affect the conduct of business in New Jersey. Members of the committee, in addition to Mr. Fernald, are John A. Conlon, William Surosky, Paul K. Owen and William F. Ackerson.

The special committee on coöperation with bankers, as a result of a criticism several years ago by a member of congress from New Jersey, undertook to enter into closer relationship with bankers of the state, in order that misunderstandings which might lead to criticism of accountants could be clarified. This year James F. Hughes, chairman of the committee, sent a letter to William J. Couse, president of the New Jersey Bankers Association and president of the Asbury Park Trust Company, expressing the desire of the society to cooperate with bankers of the state in every practicable way. It is expected that meetings of accountants with bankers will take place during the coming year. Philip S. Suffern, Julius E. Flink, John A. Conlon, W. Homer Conkling, William H. Compton and Percy Block are members of this committee.

Other standing and special committees of the New Jersey society are as follows:

### LEGISLATION:

Charles E. Mather, *chairman*  
William H. Compton  
Harold A. Eppston  
Theodore Krohn  
Maurice E. Peloubet

### ETHICS:

Maurice E. Peloubet, *chairman*  
James J. Hastings  
W. Melville Coursen

W. Sanders-Davies  
Walter A. Staub

### PUBLIC RELATIONS:

Irving Heyman, *chairman*  
Robert Caruba  
Roscoe K. Cook  
Andrew M. Hauser  
Philip E. M. Thompson

### MEMBERSHIP:

Francis A. Morrison, *chairman*  
Morris J. Hoenig  
Frank C. Reilly  
Louis Siegel  
Albert J. Wiley

### LECTURES AND ENTERTAINMENT:

Philip S. Suffern, *chairman*  
Edward I. Anfinsen  
C. P. King  
Samuel Klein  
Lewis M. Norton  
William B. Wiegand

### YEARBOOK:

George Rea, *chairman*  
George L. Baines  
Samuel I. Bendet  
John Miller  
Dora Roworth

### BANKRUPTCY STUDY:

James J. Hastings, *chairman*  
Julius E. Flink  
Morris J. Hoenig  
Charles L. Hughes  
Philip S. Suffern

### BUILDING AND LOAN ACCOUNTS:

Morris J. Hoenig, *chairman*  
George Baker  
Julius E. Flink  
Charles L. Hughes  
Byron C. Wilcox

## Varied Programme at New York State Society Meeting

About 200 accountants were present at the Pennsylvania hotel on October 16th to hear discussion of many timely subjects included in the programme for the all-day meeting of the New York State Society of Certified Public Accountants. Investment trusts, the federal reserve board's pamphlet, "Verification of financial statements," and papers presented at the international congress on accounting were the subjects of discussion.

### INVESTMENT TRUSTS

E. Stanley Glines, vice-president of the American Founders Corporation, said that the recent organization of several hundred investment trusts was a well founded development in the financial world and one that would perform a sound economic function. Alarm at the spread of investment trusts is

needless, Mr. Glines said. He mentioned the possibility that investment trusts, able to meet the income requirements of all classes of people and to extend to many the benefits of expert organization in valuing and dealing in securities, might be developed into ideal media for the administration of securities of estates. The closest approach to the ideal investment, Mr. Glines said, is that of an organization operating internationally on the basis of a widely diversified list of securities, investing only in countries whose governments are regarded as politically stable, purchasing only units which may be readily liquidated.

Warren M. Persons, economist of the Goldman Sachs Trading Corporation, echoed the note of optimism in Mr. Glines' address. He said that the status of investment trusts was assured and expressed faith in their ability intelligently to study, with comparatively small staffs of experts, diversified types of industry.

George P. Auld, chairman of the society's special technical committee on investment trusts, spoke on some accounting problems of such organizations, particularly treatment of stock dividends.

#### VERIFICATION OF FINANCIAL STATEMENTS

Following luncheon the president of the society called Frederick H. Hurdman, president of the American Institute of Accountants, to take the chair during discussion of the pamphlet entitled, "Verification of financial statements," which had been prepared by a committee of the American Institute of Accountants and published by the federal reserve board. Authur W. Teele, chairman of the Institute's committee, described the manner in which the document had been constructed. Subdivisions of the pamphlet were discussed by different members of the society as follows:

Cash, notes receivable, accounts receivable and securities, A. S. Fedde; inventories, Henry B. Fernald and C. O. Wellington; fixed property and deferred charges, William D. Cranstoun; notes payable, accounts payable, contingent liabilities, accrued liabilities and bonded and mortgage debt, Joseph J. Klein; profit-and-loss items including form of auditor's certificate, William H. Bell; form of balance-sheet and profit-and-loss statement, Samuel J. Broad.

Following these addresses, the Missouri golf trophy, a cup for which teams from several states competed at the 1929 annual meeting of the American Institute of Accountants, was presented to the winning team of the New York state society by A. P. Richardson, secretary of the Institute. Harold A. Wythes, captain of the team, accepted the trophy.

Dinner was served at the Accountants club. During the evening session members of the society discussed papers which had been presented at the international congress on accounting on legislation and education, depreciation, balance-sheets, inventories, cost accounting and budgets.

#### MEETING OF NOVEMBER 11TH

The second meeting of the year took place at the Pennsylvania hotel on the evening of November 11th. Accountants' reports and the application of ratios to accountants' reports were the topics of discussion, and papers by Charles H. Towns and Charles Hecht were presented on the subject. General discussion was led by William H. Bell, chairman of the society's committee on co-ordination of technical committees. Proposals to amend three articles of the by-laws were submitted at the meeting and were approved by the society. The amendments dealt with minor points of administrative procedure.

#### Annual Meeting of North Carolina Association

The tenth annual meeting of the North Carolina Association of Certified Public Accountants took place October 25th and 26th at the state college, Raleigh. The following officers were elected: O. N. Hutchinson, president; K. W. Parham, vice-president, and Neal S. Zeigler, secretary-treasurer. In addition to the officers the following were elected directors: George H. Emery, James I. Mason, George H. Terry and William H. Zimmerman.

Roy B. Kester of Columbia University delivered an address on "The accountant as business counselor." He said that instead of emphasizing the work of the accountant as auditor the tendency at the present time is toward activity in a more confidential capacity as counselor on business policies and projects. Mr. Kester

said that accountancy was a young profession and has a wide field still open for exploitation.

O. N. Hutchinson spoke on "Education and training for accountancy." C. B. Shulenberger of the state college faculty spoke on "The student, the institution and the practitioner." An address by E. C. Brooks, member of the general assembly from Durham, was entitled "Legislative aspects of the profession." John A. Park delivered an address entitled "The profession of public accounting."

Asheville, North Carolina, was chosen as the place for the next annual meeting.

At the business session a resolution was adopted that the by-laws of the association be revised and that the membership be requested to submit suggestions for consideration.

The association has decided to issue a periodical bulletin to members.

### **Ohio Society of Certified Public Accountants**

A. W. Cuthbertson has been elected secretary-treasurer of the Ohio Society of Certified Public Accountants. The names of other officers elected at the annual meeting of the society on October 11th and 12th were published in the *Bulletin* of the American Institute of Accountants for October.

Speakers at the annual meeting were E. S. Thomas; J. J. Castellini, president of the Brotherhood of Railway Clerks National Bank, who discussed financial statements for credit purposes; C. V. Anderson, who advocated changes in the tax laws of Ohio; and H. C. Miller, whose subject was accountancy legislation. Mr. Miller was in favor of a regulatory type of law.

Toledo has been selected for the place of the annual meeting in 1930.

The president of the Ohio society has appointed the following committees for the coming year:

#### **MEMBERSHIP:**

C. E. Flanders, *chairman*  
J. R. Favret  
R. L. Kirschner  
C. E. Hubbard  
H. L. Dalton  
G. S. Clark

#### **FINANCE:**

W. E. Langdon, *chairman*  
D. R. King  
R. F. Bishop

#### **AUDITING:**

H. B. Terry, *chairman*  
J. A. Hawk  
E. F. Eversman

#### **MEETINGS:**

Spring 1930—  
H. C. Miller  
H. W. Hooper  
H. F. Bowsher  
Fall 1930—  
M. J. Arft  
R. A. Hurst  
C. J. Mason

#### **PRESS AND PUBLICITY:**

C. C. McConkie, *chairman*  
R. H. Gravett  
Gordon S. Battelle

#### **ACCOUNTANCY EDUCATION:**

W. D. Wall, *chairman*  
W. J. Taylor  
J. H. Sibbison

#### **LAW ENFORCEMENT:**

M. J. Arft, *chairman*  
P. J. Rohlfing  
H. W. Weiss

#### **LEGISLATION:**

H. C. Miller, *chairman*  
W. A. Coy  
Harold Worthington  
M. J. Arft  
Hugh E. Wall  
L. T. Konopak  
James Pitcher  
B. G. Graham

#### **ARBITRATION:**

George R. Lamb, *chairman*  
J. D. Cloud  
A. L. Peters

### **Pittsburgh Accountants Renew Luncheon Meetings**

The weekly luncheons of the Pittsburgh chapter of the Pennsylvania Institute of Certified Public Accountants were resumed with a luncheon on Wednesday, October 9th, at the Union club. J. M. Cummings presided.

### **Annual Meeting of South Carolina Association**

At the annual meeting of the South Carolina Association of Certified Public Accountants, held at Columbia, October 22nd, Martin T. Powers was elected president, L. L. Wilkinson, vice-president, and J. Hall, secretary-treasurer.

It was resolved at the meeting to make protest against the removal of the United States revenue agent in charge of South Carolina from Columbia to Greensboro, which is geographically more inaccessible to the majority of the taxpayers of the state. Telegraphic protests were sent by the association to all South Carolina representatives and senators in congress.

At the annual banquet addresses were made by J. A. Hammond, state senator; B. N. Edwards, vice-president of the South Carolina National Bank; W. R. Bradley, director of the income-tax division of the

state tax commission, and John F. Jones, collector of internal revenue for South Carolina.

### Annual Meeting of Texas Society

The annual meeting of the Texas Society of Certified Public Accountants was held November 11th and 12th at Beaumont. The South Texas State Fair was in progress during the time of the meeting and the society's committee on arrangements had planned that the programme would be largely devoted to entertainment.

## REVIEWS

WALTER L. MORGAN—"ACCOUNTING, MANAGEMENT AND COSTS FOR AIRPORTS"

The last of a series of three articles published in *Airports*, September, 1929.

The first two articles of this series, which have been reviewed in past issues of the *Bulletin*, dealt with the need of proper accounting records in the management of an airport from the point of view of the construction programme and with analysis and control of revenue. The concluding article deals with the nature of expenses to be expected and their control by proper accounting.

The author submits the following suggested classification of operating expense accounts for an airport:

#### A—Field division

- Superintendence
- Wages
- Light and power
- Maintenance, supplies, water, etc.
- Depreciation of lighting equipment
- Depreciation of field equipment
- Miscellaneous
- Operation gas and oil services—wages
- Operation gas and oil services—expenses
- Taxes

#### B—Hangar division

- Wages
- Light, heat, power
- Insurance
- Maintenance
- Depreciation of hangars
- Miscellaneous
- Taxes

#### C—Repair shops

- Superintendence
- Wages
- Materials and parts (classified in such detail as may be necessary)
- Light, heat and power
- Maintenance of equipment
- Depreciation of equipment
- Depreciation of buildings
- Insurance
- Shop expense
- Miscellaneous

#### D—Operation of administration building

- Salaries
- Maintenance
- Supplies and expenses
- Depreciation administration building
- Depreciation administration building equipment
- Heating
- Light, power and water
- Insurance
- Miscellaneous
- Taxes

#### E—Sales division

(Used if sales are not put out on a concession)

##### Salaries

- Commissions
- Traveling and entertaining
- Advertising
- Sales-offices expenses (postage, telephone, supplies, etc.)
- Depreciation of ships
- Maintenance of ships
- Operation of ships
- Bad debts
- Insurance
- Miscellaneous selling expenses, etc.

#### F—Swimming-pool division

- Superintendence
- Wages
- Cost of water
- Light and power
- Filtration material
- Laundry expense
- Advertising
- Depreciation of building
- Depreciation of equipment
- Maintenance
- Suits, towels, etc., replacements
- Miscellaneous
- Sundry supplies
- Taxes

#### G—Parking division

- Wages of parking employees
- Maintenance of parking space
- Taxes

#### H—Flying-club division

(Classify in such detail as may be required)

## Bulletin of American Institute of Accountants

- I—Field office
  - Clerical salaries
  - Stationery, printing and postage
  - Telegraph and telephone
  - Miscellaneous
- J—General administrative expenses
  - Salary of officers
  - Salaries—executive office
  - Executive office expenses
  - Rent
  - Telegraph and telephone
  - Stationery, printing and postage
  - Office supplies and expenses
  - Depreciation of furniture and fixtures
  - Advertising—general public magazines
  - Advertising—newspapers
  - Advertising—trade journals
  - Advertising—direct by mail, etc.
  - Promotion—publicity
  - Promotion—meets and races
  - Promotion—miscellaneous
  - Legal and professional services
  - Taxes—income and corporate state taxes
  - Compensation insurance and bonding premiums
  - Miscellaneous

These accounts analyze the overhead and expense in such detail that the management can readily ascertain what particular department is excessive in its expenditures and can ascertain what costs are necessary to produce revenue in those departments. Smaller airports may not require all the accounts in this classification. Naturally, the needs of each particular enterprise must be considered. Control of expenses may be divided into three general classes: control of salaries and wages, control of expenditures, control of requisitions from stores.

The usual payroll precautions successfully adopted in other businesses apply to the operation of airports. Addition to personnel should be made by a proper executive and written approvals forwarded to the accounting department stating authorized salary or wages. Foremen of each division should prepare daily or weekly time slips reporting the hours and the nature of work of each employee. These reports should be approved by the general field manager and referred to the accounting department for preparation of payroll. An employee other than those who prepare the payrolls or time cards should pay off the men in order to establish proper internal check. Purchase of materials should be controlled by standard purchase order system. All commitments should be ordered or confirmed by formal purchase order letter or contract and copy of authorization should be forwarded to the accounting department. The general manager of the field office should have authority to approve items requisitioned by an authorized department head, provided that he notify the executive accounting office of the commitment. All major orders should be mailed directly from the executive office and signed by officers. Upon receipt of materials or performance of services, a copy of the purchase order or another receipt slip, duly signed, should be sent the accounting department. When the invoice arrives from the vendor it may be vouchered with this record.

The author recommends a stores system to con-

trol material and supplies which must be kept in stock. Withdrawals from stores should be made on customary requisitions, summaries of which are used to determine the general and cost ledger charges from stores.

Items such as insurance, taxes and depreciation should be charged to appropriate prepaid or accrued accounts when paid. These accounts should be credited monthly and the various departmental operating expense accounts debited.

### OLIVER P. COBB—"COST OF CARRYING ACCOUNTS"

Article published in *Credit Monthly*, October, 1929

The net cost of carrying accounts, says the writer, is the difference between the gross cost involved in giving credit, less the amount of discount which would ordinarily have been allowed for cash payment. The gross cost may be divided into five elements, as follows: (1) cost of operating the credit department; (2) additional bookkeeping costs; (3) cost of collections; (4) other costs, such as losses through bad accounts, interest paid on loans necessitated by extending credit on accounts receivable, interest on funds represented in accounts receivable, etc.; (5) intangible costs. Control of the first three elements depends on the size of the organization. In a small business doing a large cash trade these three elements would probably be negligible, but in a large credit business the whole cost of operating credit and collection departments is an extra expense, as is a part of the work which devolves upon the bookkeeping department. It is not advisable to curtail the cost of these three departments to a point where efficiency will be impaired, because the fourth element of cost depends largely on the operations of these departments.

If the working capital of a business is not in proper ratio and if accounts receivable are not delinquent, then interest charges on borrowed funds are not a part of the cost of carrying accounts. The concern may be overcapitalized or too much capital may be invested in fixed assets. However, if it is necessary to borrow money to continue operations because of delinquent accounts, then the interest on such loans is clearly a cost of carrying accounts. If, instead of borrowing, a company uses its own resources to tide over trying periods caused by delinquencies, there would not be any interest charge in the profit-and-loss statement but an expense would be involved in loss of interest on cash which could have been used otherwise.

The interest expense always present when credit is extended, through investment of funds in accounts receivable, is partly offset by the saving of cash discount. Chain stores do business on a cash basis and save the interest expense of carrying accounts. At the same time funds are available for investment in inventories which adds to the advantage over the credit merchant by increasing turnover.

One method of providing for the expense of bad accounts is to charge bad debts to a special account when they are estimated to be worthless and to provide for doubtful accounts by means of a reserve which is adjusted at the end of each year. The cost of bad debts is reflected by a charge to the profit-

and-loss statement, as is the increase or decrease in the adjusted reserve for doubtful debts. The argument against this method is that these accounts may represent merchandise supplied during a prior financial period. Another method provides a reserve for bad and doubtful accounts by charging profit and loss and crediting the reserve with a certain percentage on credit sales. This method has the advantage of prorating bad-debts costs according to the amount of sales.

When delinquent accounts receivable prevent a firm from taking advantage of cash discounts in its purchases, the loss is a part of the cost of carrying accounts.

Intangible costs do not reflect themselves in the profit-and-loss statement but they may be hidden in other items materially affecting operations, such as loss of goodwill with decreased sales, lowering of credit standing by carrying accounts past due, etc

## EMPLOYMENT EXCHANGE

The unusual activity of some accounting firms during the past summer, which enabled them largely to avoid the cuts in staff personnel usual in the spring, led many accountants to believe that this year would not see such marked fluctuation in the size of staffs as has occurred in other years. While the employment exchange has been steadily receiving requests for assistants during the period commonly known as the dull season, the increase in number of such requests this fall indicates that many staff additions, even if not as many as usual, will be made to cope with the end-of-the-year rush. At the same time there has been a drop in the number of well qualified applicants who have registered with the employment exchange.

This situation is a difficult one for firms in need of temporary assistants, because first-class men seem to have little difficulty in obtaining permanent positions.

Nearly all well qualified applicants to the exchange are now in communication with accounting firms which need assistants and for that reason it might lead only to confusion and unnecessary correspondence to publish their qualifications in this issue of the *Bulletin*. New applicants will doubtless appear from time to time, and firms in need of assistants are urged to communicate with the employment exchange and outline the requirements for the positions which are open. If suitable applicants are available they will be referred immediately to the firms which inquire.

## HERE AND THERE

Beard & Abney announce the removal of their offices to suite 1818 Chanin building, 122 East 42nd street, New York.

Chesnutt, Murphy, Poole & Co. announce the removal of their offices to suite 606-608 London Guarantee and Accident building, Chicago.

Robert Douglas & Co., Boston, announce that Harold T. Houston, resident manager of their Lawrence office, has been admitted to partnership in the firm.

Ira S. Harris has announced the opening of an office in the First National Bank building, Mesa, Arizona.

Walter Mucklow announces that he has moved his offices to 1606 Barnett National Bank building, Jacksonville, Florida.

James A. Nugent has announced the opening of an office in room 534, Bankers building, Milwaukee.

Peat, Marwick, Mitchell & Co., New York, announce that they have admitted E. A. Camman to partnership in the firm.

John Y. Richardson & Co. have moved their offices to 325 Failing building, Portland, Oregon.

William W. Thompson & Co., Chicago, and Gladstone Cherry & Co., Milwaukee, announce the consolidation of their practices under the firm name of William W. Thompson & Co.

George William Wilde has announced the opening of an office for the practice of public accounting at 303 Finance building, San Francisco.



# BULLETIN

OF THE

## AMERICAN INSTITUTE OF ACCOUNTANTS

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DECEMBER 16, 1929

SERIES B, No. 68

### Delayed Tax Returns

#### Waldron H. Rand

Waldron Holmes Rand, past president of the American Institute of Accountants and one of the foremost public accountants practising in New England, died at 11 a.m., November 25th, after prolonged illness. Mr. Rand had not been quite well for several years, but his health had improved sufficiently to permit him to attend the annual meeting of the Institute at Washington, D. C., last September and the news of his death was a severe shock to his many friends.

Mr. Rand was an active member of the American Association of Public Accountants, the Institute's predecessor, and had served as a member of council of the Institute ever since its inception in 1916. He was president from 1918 to 1920, a vice-president in 1917 and 1918, and a member of the executive committee in 1916-17.

He held C. P. A. certificates of Massachusetts and New Hampshire. At the time of his death he was senior partner of Waldron H. Rand & Co. He had been in public practice for more than 25 years. Mr. Rand was 78 years old.

He had been at various times secretary and president of the Massachusetts Society of Certified Public Accountants, a member of the state board of accountancy, and registrar and treasurer, as well as a member of the faculty, of Boston University.

The following letter has been sent to the commissioner of internal revenue, by order of the executive committee of the American Institute of Accountants, as a protest against mimeograph No. 3759 recently issued by the commissioner, a strict interpretation of which might deny many taxpayers the convenience of extension of time in filing tax returns:

November 25, 1929.

*Robert H. Lucas, Esq.,*  
Commissioner of Internal Revenue,  
Treasury Department,  
Washington, D. C.

DEAR SIR:

Members of the American Institute of Accountants view with much apprehension the instructions to collectors relative to extensions of time for filing income-tax returns contained in Mimeograph No. 3759.

As you are doubtless aware, public accountants are entrusted by a large number of their clients, both corporate and individual, with the work of preparing or reviewing their federal income-tax returns. In many instances the accounts of the year are not finally closed until they have been audited by the accountant. In some cases the accountant is required to write up the books of account and prepare the accounts of the client. This latter work is done principally for individual taxpayers, and in practically all cases the client prefers that the work be done at one time.

Unfortunately for accountants, the bulk of their work is concentrated within the first two or three months of the year, and it is the general experience of accountants that because of the increasing difficulty in obtaining temporary assistants during the busy season, it is becoming more burdensome each year to accomplish the work in the required time.

In arranging the work in the busy season, precedence is given to the auditing of accounts which have to be presented to stockholders at annual meetings which are to be held in the early part of the year. The auditing of accounts which do not require to be submitted until later on in the year is naturally deferred, so also is the work of writing up and preparing accounts of individual clients. This being the case, it is evident that the preparation of the tax returns of the last-mentioned group will of necessity be delayed. Hence, extensions in these cases have, in the words of Mimeograph No. 3759, been "habitually" requested.

So long as the conditions described above exist it will be necessary for accountants to continue to request, on behalf of their clients, extension of time for preparing and filing a large number of their returns.

The Institute therefore trusts that you will see your way clear to advise collectors of this condition of affairs and to instruct them to grant the desired extensions when requested by reputable accountants.

If such extensions are not granted the result will be that returns, without supporting schedules, will have to be filed on the basis of estimated income and deductions. Then, at some later date, an amended return will be prepared, showing the correct taxable net income and the difference between the tax computed on this basis and on the first-mentioned basis will be paid by the taxpayer.

So far as administration is concerned, it is certain that the state of affairs resulting from the filing of preliminary and amended returns will be much worse than that which has apparently caused the issuance of Mimeograph No. 3759.

The Executive Committee of the American Institute of Accountants is so impressed by the importance of this matter that it has ordered this letter written and signed by the Institute's executive officers.

Yours truly,  
FREDERICK H. HURDMAN,  
*President,*  
A. P. RICHARDSON,  
*Secretary.*

The mimeograph in question implies that taxpayers have taken unnecessary advantage of the privilege of obtaining extensions of time in filing returns, and instructs collectors to use discretion in making such allowances in the future, granting extensions only upon evidence of good and sufficient cause.

The following reply has been received from the commissioner of internal revenue:

November 30, 1929.

*Mr. F. H. Hurdman, President*  
American Institute of Accountants,  
135 Cedar Street, N. Y.

MY DEAR MR. HURDMAN:

Receipt is acknowledged of your letter of November 25th, referring to a mimeograph issued by this office instructing Collectors of Internal Revenue relative to extensions of time for filing income-tax returns.

You are informed that an extension of time will be granted as heretofore when there is an urgent necessity shown by the taxpayer for an extension of time for filing his return.

You will appreciate the fact that the Government operates on the budget system and much depends on the payments received during the March filing period for financing during the remainder of the year.

It is not practicable nor advisable to issue instructions to Collectors of Internal Revenue to grant an extension of time in every case upon a request for an extension. Each case must stand on its merits and there must be a real reason for granting an extension of time. I feel sure that in those instances where the request is reasonable the Collectors of Internal Revenue will recommend favorable action.

Sincerely yours,  
ROBERT H. LUCAS,  
*Commissioner.*

### **Institute Endorses Tax Cut**

The executive committee of the American Institute of Accountants has adopted a resolution expressing approval of the proposed reduction of 1 per cent. in the rate of federal income taxation for the purpose of encouraging business enterprise and preventing financial depression. Copies of the resolution have been sent to the president of the United States, the secretary of the treasury and every member of the congress of the United States. The text of the resolution is as follows:

WHEREAS, the executive committee of the American Institute of Accountants is empowered under the by-laws to administer the affairs of the Institute when the Institute itself and its council are not in session, and

WHEREAS, all questions of finance relative to the prosperity of commerce and industry are the vital concern of professional accountants, and

WHEREAS, it seems to the American Institute of Accountants of the utmost importance that questions relative to taxation should always be considered without reference to party affiliation or partisanship of any kind, and

WHEREAS, it has been proposed by the Secretary of the Treasury that a reduction of 1 per cent. on the rate of federal income taxation should be made immediately for the purpose of encouraging business enterprise and preventing financial distress,

THEREFORE, be it resolved, that the executive committee of the American Institute of Accountants commend in the strongest terms the proposal for tax reduction which has been made by the Secretary of the Treasury, and especially the non-partisan manner in which the reduction is to be effected.

And be it further resolved that copies of this resolution be sent to the President of the United States, the Secretary of the Treasury and all members of the Senate and House of Representatives.

## **Information Returns Must Be Filed February 15th**

The committee on federal legislation of the American Institute of Accountants wishes the attention of the membership drawn to treasury decisions 4277 and 4278, approved November 23, 1929, and published under date of November 28th.

Treasury decision No. 4277 provides that corporations shall render returns of information as to payments of dividends of \$500 or more to one stockholder, in 1929 and thereafter, not later than February 15th of the year following that in which the payments reported occurred. The required forms must be sent to the collector of internal revenue for the district in which the corporation has its principal place of business.

Decision No. 4278 provides that payment in excess of \$1,500 for salaries, rents, interest, etc., must be reported to the district collector before February 15th of the year following, in a similar manner.

Reasonable extensions of time for filing these information returns will be granted only if requested prior to February 15th and if it is shown that it is impossible to meet the requirement.

Neither decision affects the present due date of regular income-tax returns. Both advance by one month the date for filing information returns.

## **Special Cars to Institute's Annual Meeting**

Officers of the American Institute of Accountants have been discussing the possibility of arranging a special party which might travel as a unit from the eastern cities to the annual meeting at Colorado Springs, September 15-18, 1930. Those who constituted the special party which journeyed as a unit to the meeting at Del Monte in 1927 were unanimous in praise of the trip, and it is felt that many members would welcome an opportunity to go to Colorado Springs in a similar manner.

A group of 50 persons or more could easily charter several drawing-room Pullman cars for the entire journey. Railroads have submitted possible itineraries for such a trip, an example of which is as follows:

September 12th.

Lv. New York, 2:00 p.m.

September 13th.

Ar. Chicago, 9:00 a.m.

Lv. Chicago, 10:00 a.m.

Ar. Kansas City, 9:25 p.m.

Lv. Kansas City, 9:45 p.m.

September 14th.

Ar. Colorado Springs, 12:40 p.m.

September 15th to 18th.

Annual meeting at Colorado Springs. Opportunity for motor trips to Pike's Peak, the Garden of the Gods, the Cave of the Winds, over Corley Highway to Cripple Creek, or to the Royal Gorge.

September 18th.

Lv. Colorado Springs, 7:55 p.m. or 1:10 p.m.

Ar. Denver, 10:25 p.m. or 3:30 p.m.

Overnight at hotel in Denver.

September 19th.

Lv. Denver, 7:45 a.m.

Motor tour via Big Thompson Canyon

Ar. Estes Park (Rocky Mountain Park), 12:00 m.

Lv. Estes Park via Fall River Pass and Continental Divide and the Kawuneeche Valley, 2:30 p.m.

Ar. Grand Lake, 6:00 p.m.

Overnight at the Chalets.

September 20th.

Lv. Grand Lake, via Fraser River-Berthoud Pass and Clear Creek Canyon, 8:00 a.m.

Ar. Idaho Springs, 12:30 p.m.

Lv. Idaho Springs, via Lookout Mountain, Cody Museum and Denver Mountain Parks and Golden, 2:30 p.m.

Return to Denver, 5:00 p.m.

Evening in Denver.

Lv. Denver, 11:30 p.m.

September 21st.

En route.

September 22nd.

Ar. Chicago, 7:00 a.m.

Lv. Chicago, 10:30 a.m.

September 23rd.

Ar. New York, 8:30 a.m.

The approximate cost of such a trip, excluding cost of meals on train and hotel bills at Colorado Springs and Denver, as well as sightseeing at Colorado Springs, is estimated by railroads as not in excess of \$200.

Similar itineraries, occupying 7, 10 or 15 days, have also been suggested.

Members in Philadelphia and the vicinity and in New Jersey could join the party in New York at the beginning of the trip. Members in Boston and other New England cities could meet the others at Albany, en route to Chicago. Southern and middle-western members could join the group at Chicago or Kansas City.

Expressions of opinion on this suggestion will be welcomed by the secretary's office. It will be most helpful in making plans to know as far in advance as possible what members might wish to travel in this way, barring unforeseen circumstances. Recommendations of possible changes in the itinerary will also be welcome.

### **Conduct of an Accounting Practice**

Pamphlet reprints of discussion at the 1929 annual meeting of the American Institute of Accountants, on organizing and conducting an accounting practice, are being mailed to members and associates with this *Bulletin*.

Extra copies of the pamphlet may be obtained at 25 cents each, and accountants who are not members of the Institute may purchase them at that price.

The pamphlet contains 56 printed pages.

### **Library Bulletin on Stock Dividends**

Special bulletin No. 33, published by the library and bureau of information of the American Institute of Accountants, deals exclusively with the question of the proper treatment of stock dividends received from companies which make a practice of declaring such dividends regularly in lieu of cash dividends.

Six answers submitted by members of the Institute at the request of the librarian express various points of view on the problem.

Members and associates of the Institute are entitled to free copies of the bulletin, which are sent to them herewith. Other copies may be obtained at ten cents each.

### **American Institute Examinations**

More than 500 candidates sat for the American Institute of Accountants examinations held November 14th and 15th in the 28 states which used the Institute's questions this fall. The other 10 states and territories which usually cooperate did not hold examinations.

Reports of the Institute examiners who graded the papers were mailed to state boards December 14th.

### **Institute Officers Attend Fiftieth Anniversary Meeting of Quebec Society**

Frederick H. Hurdman and Stanley G. H. Fitch, president and vice-president, respectively, of the American Institute of Accountants, accepted invitations to attend a banquet in celebration of the fiftieth anniversary of the Society of Chartered Accountants of the Province of Quebec, the oldest organization of professional accountants in America. The banquet was given in Montreal on December 5th.

### **Institute Represented at American Mining Congress Convention**

Henry B. Fernald represented the American Institute of Accountants at the thirty-second annual convention of the American Mining Congress, held at Washington, D. C., December 4-7, 1929.

### **Washington Society Adopts "Verification of Financial Statements"**

At a meeting of the Washington Society of Certified Public Accountants held at Seattle, October 7, 1929, a resolution was adopted which sets as a minimum requirement for certification of financial statements the procedure outlined in the Federal Reserve Board pamphlet, "Verification of financial statements." The resolution was amended slightly at a meeting on November 13th, and now reads as follows:

WHEREAS, it has long been recognized by bankers and certified public accountants that there should be a mutual understanding between them as to a standardization of procedure in the preparation of statements presented by borrowers as a basis for the extension of credit; and

WHEREAS, as a first step toward such standardization, at the request of the Federal Trade Commission, the American Institute of Accountants in 1917 prepared a memorandum on procedure, which memorandum was endorsed by the Federal Reserve Board and was submitted by the Federal Reserve Board to bankers and banking associations throughout the country and was published in pamphlet form and reprinted several times; and

WHEREAS, a revision of the original pamphlet has now been made by the American Institute of Accountants giving effect to various criticisms and suggestions for minor changes, which revised pamphlet has been issued by the Federal Reserve Board, entitled, "Verification of financial statements (revised), a method of procedure submitted

by the Federal Reserve Board, Washington, for the consideration of bankers, merchants, manufacturers, auditors and accountants;" now, therefore, be it

RESOLVED, that the Washington Society of Certified Public Accountants determine that the minimum requirement for certification of financial statements shall be the standards set forth in the said pamphlet entitled "Verification of financial statements" (revised May, 1929); be it further

RESOLVED, that if said minimum requirements have not been observed in preparing said statements, each member of the Washington Society of Certified Public Accountants responsible for such certificate shall indicate on the balance-sheet or include in the certificate appended to said statements such qualifications as are necessary to show clearly wherein any of the items appearing in said statements have not been satisfactorily verified; be it further

RESOLVED, that a copy of this resolution be forwarded by registered mail to every holder of a certified public accountancy certificate issued by the state of Washington; be it further

RESOLVED, that an appropriate committee of the Washington Society of Certified Public Accountants be empowered to adopt rules and regulations for the carrying out of the intent and spirit of this resolution, including the right to consider complaints and recommendations to the board of directors thereon; and be it further

RESOLVED, that a copy of this resolution be forwarded to such committee or association of the bankers of the State of Washington as will provide for information to the bankers of the state of the action here taken.

A committee appointed to carry out the provisions of the resolution consists of H. E. Smith, R. D. White and Arne S. Hansen.

### **"Verification of Financial Statements" Recommended as Standard Procedure in Massachusetts**

At a meeting of the Massachusetts Society of Certified Public Accountants, November 25th, the following resolution was adopted:

WHEREAS, in the year 1926 the Massachusetts Society of Certified Public Accountants, Inc., adopted certain principles as accepted practice in the certification of Massachusetts annual reports of condition, and

WHEREAS, the *Federal Reserve Bulletin* of April, 1917, on "Approved methods for the preparation of balance-sheet statements" referred to in paragraph 2 of said principles was superseded in May, 1929, by a revised pamphlet entitled "Verification of financial statements,"

It is voted

That paragraph 2 of said principles be amended to read as follows:

"The pamphlet 'Verification of financial statements' submitted by the Federal Reserve Board in May, 1929, is suggested as an acceptable outline of an audit made for the purpose of certifying the balance-sheet."

And that the said principles, including paragraph 2 as amended, be, and hereby are, reaffirmed as follows:

"1. As a prerequisite to the certification of a report of condition, the auditor, or staff members under his supervision, shall have made a balance-sheet audit of the corporation's accounts as of the date at the end of the fiscal year and shall have verified the accuracy of the items numbered 1 to 6 inclusive in section 47 of chapter 156.

"2. The pamphlet 'Verification of financial statements' submitted by the Federal Reserve Board in May, 1929, is suggested as an acceptable outline of an audit made for the purpose of certifying the balance-sheet.

"3. The phrase in the statute, 'as disclosed by its books at the time of making such audit,' shall not be regarded by the auditor as a limitation requiring or permitting him to make an examination less thorough in scope than a balance-sheet audit.

"4. The auditor may amplify the printed form of balance-sheet in the report of condition with titles for any class of assets or liabilities not provided for or not suitably described in the form, and shall report any other material fact which, in the judgment of the auditor, must be set out in order that the balance-sheet shall represent the true condition of the affairs of the corporation as of the given date.

"5. The auditor may modify the language of the printed form of certificate if, in his judgment, he can not fairly subscribe to the printed form, provided, however, such modified certificate is not inconsistent with the statutory requirement that the auditor shall affirm that 'such report represents the true condition of the affairs of said corporation as disclosed by its books at the time of making such audit.'"

### **Bankers' Magazine Publishes Accountants' Comments on "Verification of Financial Statements"**

Under the title "Balance-sheet standards," the *North Pacific Banker* for November 22, 1929, publishes comments of six accountants on the Federal Reserve Board pamphlet, "Verification of financial statements." All the opinions approve the maintenance of definite standards of audit procedure, and commendatory mention is made of the official adoption of the pamphlet as a minimum by the California and Washington societies of certified public accountants.

### **Independent Audit of Bank for International Settlements**

Article 52, chapter VI, of the statutes governing operation of the Bank for International Settlements under the Young Plan, made public November 13th, provides that

the annual profit-and-loss account and balance-sheet of the bank shall be audited by independent auditors, who shall have full power to examine all books and accounts of the bank and require full information as to all its transactions. The auditors shall report to the board and to the general meeting and shall state in their report "whether or not they have obtained all the information and explanations they require and whether in their opinion the balance-sheet is properly drawn up so as to exhibit a true and correct view of the bank's affairs according to the best of their information and explanations given to them and as shown by the books of the bank."

The statutes of the bank require that it publish an annual report and, at least once a month, a statement of account. The board shall cause to be prepared a profit-and-loss account and a balance-sheet for each financial year in time for submission to the annual general meeting. The fiscal year will be from April 1st to March 31st.

The bankers' committee which signed the charter and statutes selected Basle, Switzerland, as the place for the bank's headquarters.

The plan provides for a charter for the bank from the government of Switzerland, supported by a treaty with the governments concerned, which will exempt the institution from certain types of taxation and other obligations ordinarily incumbent upon banks.

The plans of the committee will be submitted for approval at a conference of governments to be held at The Hague.

### **Auditor's Certificate Required for Investment-trust Listings on Stock Exchange**

The tentative special requirements for listing investment-trust securities on the New York stock exchange, approved by the committee on stock list last spring, contain the following provision:

"There must be appended to all financial statements and inventories required by the committee the certificate of a public accountant, qualified under the laws of some state or country, which certificate shall contain a statement that no one of the items carried under the term "miscellaneous" in the list of investments, subsequent to the initial application, has been held for more than one year."

### **Rules Governing Issuance of New York C. P. A. Certificate**

A new edition of handbook No. 14 of the University of the State of New York, explaining requirements for the C. P. A. certificate, has recently been published. It is the first edition since enactment of the new accountancy law of the state approved April 3, 1929, a copy of which appears in the new handbook.

#### **EXPERIENCE REQUIREMENT**

The experience requirement, as stated in the new rules, corresponds with that in force before passage of the 1929 law with two additions: (1) seven years' accounting practice, at least four of which have been in the office of an accountant qualified by ten years' experience to apply for a C. P. A. certificate on examination in New York; or (2) ten years' diversified accounting practice in New York, on the applicant's own account, provided application is filed not later than January 1, 1938, will be accepted as fulfilling the requirement, according to the handbook.

#### **EDUCATION REQUIREMENT**

The preliminary-education requirement appears to be substantially the same as before the new act, except that recognition of at least ten years' public practice in lieu of a high-school course of study, which was formerly limited to applications submitted prior to November 1, 1929, may now be extended to applications submitted prior to January 1, 1930.

#### **CERTIFICATION BY INDORSEMENT**

Following is an extract from the handbook on the subject of indorsement of C. P. A. certificates of other states:

"Upon recommendation of the board of certified public accountant examiners, the department will indorse a C. P. A. certificate issued in another state or political subdivision of the United States, provided the applicant pays the fee of \$25 and presents satisfactory evidence that he has met all of the requirements for admission to the New York state certified public accountant examination, that he has passed the regular written examination for a certified public accountant certificate in the other state, and that he has been engaged in the public practice of accountancy for three years or more in one or more of the states or political subdivisions of the United States either on his own account or as a member of a copartnership or as an employee of

any person engaged in the public practice of accountancy, and such applicant is actually so engaged at the time of application for indorsement, and is in good and regular standing as a certified public accountant in each state or political subdivision of the United States from which he has ever received a certificate of certified public accountant. Such indorsement shall be equivalent to a certificate of certified public accountant of the state except as otherwise provided by law. Such indorsement shall become void in the case of any person not a citizen of the United States at the expiration of eight years from the date of his declaration of intention to become a citizen."

#### COMMITTEE ON GRIEVANCES

A committee on grievances has been appointed by the regents, in accordance with the new law, to hear charges against certified public accountants for any fraud, deceit or gross negligence in the practice of the profession. The committee is as follows:

James E. Nugent, Newburgh,	term expires 1930
William J. Nusbaum, Albany,	term expires 1930
James L. Ridgway, New York,	term expires 1931
Ernest Willvonseder, Rye,	term expires 1931
Dana F. Stark, Elmira,	term expires 1932
Lewis R. Stelle, Syracuse	term expires 1932
James F. Farrell, New York,	term expires 1933
Homer A. Dunn, New York,	term expires 1933
Luther K. Watkins, Buffalo,	term expires 1934
Frederick G. Colley, Yonkers,	term expires 1934

#### COUNCIL ON ACCOUNTANCY

Section 1491 of the new accountancy law provides that the regents may at any time appoint a council on accountancy composed of eminent practitioners of accounting, who would serve without compensation, to advise with the department of education, the board of examiners and other public officers on matters arising in the administration of the law.

The regents have as yet given no notice of appointment of such a council, which it is generally felt would serve as a link between the profession itself and those public officers charged with the duty of administering the accountancy law and the rules of the regents affecting accountants.

At a meeting of the New York State Society of Certified Public Accountants on December 9th, after lengthy discussion of the new rules, a resolution was adopted urging appointment of such a council as the law provides and authorizing suggestion of names of practitioners from among whom the regents might select the number desired.

#### Hotel Accountants Association

At a meeting of the Hotel Accountants Association of New York on October 29th, John F. Courtney, instructor in hotel accounting at Cornell University, distributed copies of a pamphlet entitled "Typical ratios," the result of a study of profit-and-loss statements of about fifty hotels, ranging in size from 69 to 1409 rooms. It shows among other things that in an average hotel rooms payroll amounts to about 17 per cent. of room sales; that food payroll is about 32 per cent. of food sales; that total cost of repairs, including payroll, is about 6 per cent. of room sales; and that advertising cost constitutes about 3 per cent. of room sales. Mr. Courtney announced that he intended to prosecute further studies in the same direction.

#### MEMBERSHIP LIST

The latest membership roster of the Hotel Accountants Association shows a total enrolment of 59, which includes 21 professional public accountants and two honorary members. The other members are accountants employed by hotels.

#### New York Merchants' Association Endorses Use of Fiscal Year

On the recommendation of its committee on commercial law, the Merchants' Association of New York, through its board of directors, has endorsed the principle of the fiscal year for accounting purposes in concerns which would benefit by change from a calendar-year basis. The announcement of the action refers to the efforts of professional accountants' organizations to effect more general adoption of a natural business year.

#### Foreign Accountants Banned in China

A United Press dispatch from Nanking, dated November 22nd, says that a recent announcement of the Chinese ministry of industry, commerce and labor of the National Government restricts the practice of foreign accountants to the limits of the foreign concessions. Even practice within the concessions will be seriously handicapped, the report says, as any reports signed by foreign accountants will not be recognized by the Chinese judiciary if presented in court.

## Independent Audit of County Books Recommended

A recent issue of the Knoxville, Tennessee, *Sentinel* contained an editorial recommending regular audits of county records by public accountants. The editorial says, in part:

"Under a recent rule of the county court, the three members of the revenue commission will be paid for full-time work. This is \$13 a day or \$338 a month, counting 26 working days to the month.

"With all this expense, expert auditing service is not given such as a certified public accountant could give. The members, who usually have no special qualifications for the work, can hastily scan the records, 'put in the day,' find everything o. k. and compile a report at the end of each quarter.

"The county needs constant, thorough check of all offices, done in an impartial and efficient manner such as only a certified public accountant can do. The better plan, it seems, would be to let the auditing work out on low bids each year. This, in all probability, would not cost \$338 a month. But, even if it cost more, the county would be getting better service. This would be a better plan than the appointment of a county auditor. Large corporations require annual audits from public accountants. They never have their own auditors to do the work.....

"The present auditing system is usually inadequate for real auditing work. Thus, when there is a question as to the accounts of a courthouse office, a public auditor is always engaged for the work."

## Contract with Auditors Can Not Be Annulled Unless They Be Party to Suit

The case of *Christian, et al. v. Hood, county judge, et al.* [19 S. W. (2d) 621] was a suit for an injunction to restrain performance of a contract for audit of county books

and accounts. Inasmuch as the auditors with whom the defendant commissioner's court entered into the contract were not parties to the action the Texas court of civil appeals denied jurisdiction, affirming the rule that all parties to a contract must be made either party plaintiff or party defendant in action for cancellation or rescission of such instrument. The case was dismissed without consideration of the merits of the questions on which the application for injunction was based.

## Accountants Assist Chamber of Commerce

A special committee of the Tampa chapter of the Florida Institute of Accountants, appointed to investigate a proposed airport bond issue, made a report to the chamber of commerce of Tampa on November 27th. It was the committee's opinion that the construction of an airport would be a financially sound enterprise.

## Financial Plan of Gas Companies

The bureau of business research of the college of commerce and business administration, University of Illinois, has published a bulletin of 49 pages on "The financial plan of gas companies." The main topical divisions of the pamphlet are statistical procedure, property investments in the gas industry, sources of capital for the gas industry and current position of gas companies.

## STATE BOARDS OF ACCOUNTANCY

### Colorado

Montgomery R. Smith and William D. Morrison have been succeeded as members of the Colorado state board of accountancy by Julius von Tobel and Arthur L. Baldwin. George W. Maynard, the only remaining member of the old board, has been elected president of the new one. Mr. von Tobel is secretary and Mr. Baldwin, treasurer.

### Georgia

C. P. A. examinations of Georgia took place in Atlanta, November 21st and 22nd.

### Nevada

Martin Nicholson has been appointed a member of the Nevada state board of accountancy to fill the vacancy caused by the death of E. S. LaTourrette. At a meeting of the board on November 15th, Mr. Nicholson was elected secretary-treasurer.

### New York

C. P. A. examinations of the state of New York were conducted on November 11th, 12th and 13th.



## Ohio

David A. Endres, Harold H. Gearhart and Raymond P. Vogeles were awarded certified public accountant certificates of Ohio in October, 1929, as a result of the written examinations held last May.

## Virginia

Seventy-three applicants presented themselves for the certified public accountant examinations of Virginia, held at Richmond, November 18, 19 and 20, 1929.

## STATE LEGISLATION

### Iowa

Following is the text of a law enacted at the 1929 session of the Iowa legislature providing for collaboration of certified public accountants in auditing accounts of the state highway commission:

#### CHAPTER 28

Highway commission. Audit of accounts.

AN ACT TO AMEND SECTION THREE HUNDRED FORTY (340), CODE, 1927, RELATING TO THE AUDIT OF THE ACCOUNTS OF THE PUBLIC DEPARTMENTS OF THE STATE, TO MAKE AN APPROPRIATION FOR SUCH AUDIT, AND TO REPEAL SECTION FORTY-SEVEN HUNDRED FIFTY-FIVE-B THIRTY-SEVEN (4755-b37), CODE, 1927, AND SECTION SIX (6), CHAPTER ELEVEN (11), ACTS, SPECIAL SESSION OF THE FORTY-SECOND (42nd) GENERAL ASSEMBLY.

*Be it enacted by the general assembly of the state of Iowa:*

SEC. 1. Section three hundred forty (340), code, 1927, is amended by adding thereto the following, to wit:

"The annual audit of the accounts of the state highway commission shall be made by accountants from the office of the director of the budget in connection with a certified public accountant, and there is hereby annually appropriated from any funds in the state treasury, not otherwise appropriated, a sum sufficient to defray the compensation of such certified public accountant."

SEC. 2. Section forty-seven hundred fifty-five-b-thirty-seven (4755-b37), code, 1927, and section six (6), chapter eleven (11), acts, special session of the forty-second (42nd) general assembly are hereby repealed.

SEC. 3. Publication clause. This act is deemed of immediate importance and shall take effect from and after its publication in two (2) newspapers of this state as provided by law.

### Massachusetts

A law relating to compensation of auditors appointed by courts in certain cases was enacted at the 1929 session of the legislature of Massachusetts. The text of the act is as follows:

AN ACT RELATIVE TO THE COMPENSATION OF AUDITORS AND SPECIAL MASTERS IN CERTAIN CASES.

*Be it enacted, etc., as follows:*

SEC. 1. Section sixty-two of chapter two hundred and twenty-one of the General Laws is hereby amended by adding at the end thereof the words:—, except as provided in section sixty-two A,— so as to read as follows: *Section 62.* Auditors, masters in chancery and special masters shall file their final report in the office of the clerk of the court by which they are appointed within ninety days after the hearing before them has been closed or within such time as the court may allow, and, in default thereof, shall not be entitled to any fees, except as provided in section sixty-two A.

SEC. 2. Said chapter two hundred and twenty-one is hereby amended by inserting after said section sixty-two the following new section: *Section 62A.* If an auditor or special master, appointed by the supreme judicial, superior or probate court, becomes incapacitated or dies without having filed his final report, the court may award him or his estate reasonable compensation, payable by the county, upon a finding that he actually performed services which would entitle him to the compensation awarded had he filed a report as provided in section sixty-two; provided, that all his records and memoranda, or copies thereof, in the case in which compensation is sought, are filed with the clerk of the court.

SEC. 3. This act shall take effect on September first in the current year and shall apply to cases then pending and to cases disposed of within two years prior thereto, as well as to cases thereafter instituted.

## NEWS OF LOCAL SOCIETIES

### California State Society of Certified Public Accountants

#### LOS ANGELES CHAPTER

The Los Angeles chapter of the California State Society of Certified Public Accountants held its regular meeting at the Los Angeles athletic club on November 21st.

An address on the relation of the certified public accountant to the investment banker was delivered by Tracy A. Johnson, vice-president of Cass, Howard & Co., investment bankers of Los Angeles. Mr. Johnson prefaced his address by stating that the investment banker in recommending securities to the public does so only after a

most thorough investigation and careful analysis of the company concerned, for which he relies upon the certified public accountant, the lawyer and the engineer. In the accountant's report, Mr. Johnson said, something more is desired than what can be obtained from the books themselves. The investment banker is particularly interested in knowing about the personnel of the organization, what reliance can be placed on the management of the industry, and what its facilities are for carrying on the business, both at the date of examination and in the future. Exhaustive analysis is most desirable, particularly in the case of contingent liabilities, and comparative statistics based on the company's operations over a period of years and the relation of the industry to other companies are also of great interest. In the case of a manufacturing company the banker wants particulars as to the equipment employed, the volume of production, sales, etc., and the adequacy of the cost-accounting methods. Mr. Johnson stated further that the investment banker feels that the accountant, in his contact with the business in all its aspects over the period of the time engaged in making the examination, can sense conditions in the business which can not be discerned in any other way. If these conditions can not be commented upon in a formal report then they should be drawn to the banker's attention in a separate and confidential letter, he said.

### **Connecticut Society of Certified Public Accountants**

The semi-annual meeting of the Connecticut Society of Certified Public Accountants was held at the Hotel Garde, New Haven, on November 21st.

The afternoon session was devoted to a short business meeting and an address on professional problems by Durand W. Springer.

At the evening session there was general discussion of the Federal Reserve Board pamphlet entitled "Verification of financial statements." Following the discussion Charles B. Couchman, New York, gave a brief history of the pamphlet and explained the purpose for which it was intended by the committee of the American Institute of Accountants by which it had been

prepared. He stressed the value of the pamphlet as a guide in accounting engagements, as a textbook for staff assistants and as an aid in discussion with bankers and clients on the scope of an accountant's investigation.

There were 65 members and guests present.

### **Society of Louisiana Certified Public Accountants**

Amendments to the by-laws of the Society of Louisiana Certified Public Accountants were adopted at a regular quarterly meeting at New Orleans, November 14th, providing for establishment of local chapters in various parts of the state. The desire of members in Shreveport to form a chapter prompted the amendment.

A committee of three was appointed to consider revision of the society's rules of professional conduct.

An address on the advantages of organization of professional accountants was given by the Rev. Father J. A. Butt, professor of accounting at Loyola University.

### **Maryland Association of Certified Public Accountants**

The fourth annual joint meeting of the Maryland Association of Certified Public Accountants and the Baltimore chapter of the National Association of Cost Accountants was held at the Hotel Emerson, Baltimore, on November 19th.

Walter A. Staub, New York, gave a review of the recent international congress on accounting. Addison Boren, president of the National Association of Cost Accountants, also addressed the meeting.

### **Massachusetts Society of Certified Public Accountants**

At a meeting of the Massachusetts Society of Certified Public Accountants, November 25th, Albert E. Hunter was unanimously elected secretary of the society to succeed Clifton W. Gregg, who had resigned because of business responsibilities which would interfere with his duties. The society extended a vote of thanks to Mr. Gregg in appreciation of his services.

The society adopted a resolution amending a former resolution which outlined

procedure recommended in the certification of Massachusetts reports of condition, by substituting the new Federal Reserve Board pamphlet, "Verification of financial statements," as an outline of audit in place of the original "Approved methods for preparation of balance-sheet statements" published in 1917. The full text of the resolution is published elsewhere in this *Bulletin*.

Successful candidates at the May, 1929, C. P. A. examinations of Massachusetts were guests at the meeting, and Percival F. Brundage, chairman of the committee on education, presented on behalf of the society a gold medal to the candidate who obtained the highest mark in the May examinations. E. A. Stevens was recipient of the medal. The candidates obtaining the second and third highest ratings were given honorable mention.

It was announced that Laurence H. Sloan, vice-president of the Standard Statistics Company of New York, would be the speaker at the next meeting, to be held December 16th. The topic will be "Corporation profits, the past trend and long-term outlook." The president of the society then introduced Commander William F. Amsden, U. S. N., who delivered an address on "The operations of the federal budget through the coordinating services."

### **Annual Meeting of Mississippi Society**

The principal address at the annual meeting of the Mississippi Society of Certified Public Accountants, held at Jackson, November 14th, was delivered by Walker Wood, secretary of state, on the subject of the new Mississippi corporation law. He showed how the new statute facilitates organization of corporations in Mississippi and he expressed the belief that the simplification of procedure would encourage business in Mississippi. Under the new law charters may be promptly obtained and records of incorporation are kept far better than in the past. He called attention also to an amendment in the revenue laws of the state by which property of a corporation is taxed on the same basis as if it were a person and its stocks and bonds are exempt from taxation. The law applies to both domestic and foreign corporations. Mr. Wood also said that he had advocated biennial audits of each state department since he was inducted

to office in 1926. He heartily endorsed the principle of periodic audits.

The deputy income-tax commissioner of the state, DeQuincy Von Sutton, spoke on needed changes in the income-tax law and described its operations and the relation of accountants to the income-tax department. He said that the preparation of tax returns by certified public accountants greatly facilitated the work of the commission and he mentioned the possibility that penalties against the taxpayer for certain kinds of irregularities might be waived by law if the case had been undertaken by a certified public accountant, in order that the engagement of experts to deal with tax matters might be encouraged, in the interest of the taxpayers as well as the state government.

As a result of his address the society voted to create a special committee to cooperate with the commissioner in simplifying and perfecting the income-tax laws of the state. The committee consists of C. E. Powell, Lewis E. Crook and Duncan L. Thompson.

#### **ELECTION OF OFFICERS**

Nelson E. Taylor was elected president of the Mississippi Society for the year 1929-30; R. C. Brown, vice-president; Glenn M. Goodman, treasurer, and Duncan L. Thompson, secretary. In addition to the officers C. E. Powell, Robert M. Crook and T. E. Lott are members of the board of governors.

The following committees have also been appointed:

#### **COMMITTEE TO COÖPERATE WITH BANKERS:**

R. C. Brown, *Chairman*  
Lewis E. Crook  
George E. Shaw  
Nelson E. Taylor

#### **COMMITTEE ON LEGISLATION:**

J. Acker Rogers  
W. Q. Sharp  
Duncan L. Thompson

The society resolved to undertake a study of the school of commerce and finance of the University of Mississippi and to cooperate with the school in any way which may be beneficial.

It was resolved that the by-laws of the society be revised.

The legislative committee was directed to attempt to introduce an amendment to the C. P. A. law of the state at the next session of the legislature, which will convene in February, 1930.

## **Society of Certified Public Accountants of the State of New Jersey**

The Society of Certified Public Accountants of the State of New Jersey held its fourth annual conference at the Elks Home, Newark, on December 2nd.

The following persons spoke on subdivisions of the Federal Reserve Board pamphlet, "Verification of financial statements:" Harold A. Walburn, current assets; George Rea, inventories; William D. Cranstoun, fixed property and deferred charges; James F. Hughes, liabilities; Walter S. Gee, profit-and-loss accounts and balance-sheets. In each instance the speaker's remarks were followed by discussion.

A banquet was held at 6:15 in the Lodge Auditorium. William J. Couse, president of the New Jersey Bankers Association; Julius S. Rippel, banker; Philip S. Suffern, vice-president of the society, and Arthur T. Vanderbilt, professor of law at New York University, were the speakers on the evening programme.

## **Oklahoma Society of Certified Public Accountants**

The tenth annual meeting of the Oklahoma Society of Certified Public Accountants was held at the Mayo hotel, Tulsa, on November 18th and 19th.

The following officers were elected: president, Burney R. Clack; treasurer, M. C. Fox; secretary, Albert W. Cory; auditors, Valdine Baker and Tom F. Carey; trustees, Charles A. Wright, George Abbott and W. J. Law.

Monday was devoted to business sessions. The committee on legislation presented a report reviewing the efforts which had been made to effect passage of the accountancy bill which was favorably reported out of committee at the last regular session of the legislature, but died at the close of the session. The committee recommended that efforts to effect enactment of a measure similar to the former bill be continued.

A banquet was held at 7 p.m. Monday. Approximately 150 members and guests were present.

Tuesday morning was devoted to a golf tournament and the afternoon to a business session, including the installation of officers, committee reports, etc.

## **Texas Society of Certified Public Accountants**

At the annual meeting of the Texas Society of Certified Public Accountants held on November 11th and 12th at the Hotel Beaumont, Beaumont, the following officers were elected: president, C. W. Wittman; vice-president, W. M. Aikman; secretary-treasurer, A. V. Seay.

Addresses were delivered on "Cost accounting" by George H. Newlove, professor of economics at the University of Texas, and on "Financial and operative ratios" by H. O. Walling of the University of Texas.

The committee on legislation presented an accountancy bill which was adopted in principle, and it was resolved that the committee be continued.

A resolution was adopted approving the outline of audit procedure contained in the Federal Reserve Board pamphlet, "Verification of financial statements."

The society also adopted the following rules of professional conduct:

1. A firm or partnership, all the individual members of which are certified public accountants, may describe itself as certified public accountants, but a firm or partnership, all the individual members of which are not certified public accountants, or an individual practising under a style denoting a partnership when in fact there be no partner or partners or a corporation or an individual or individuals practising under a style denoting a corporate organization shall not use the designation "Certified Public Accountants."

2. The preparation and certification of exhibits, statements, schedules or other forms of accountancy work, containing an essential misstatement of fact or omission therefrom of such a fact as would amount to an essential misstatement or a failure to put prospective investors on notice in respect of an essential or material fact not specifically shown in the balance-sheet itself shall be, ipso facto, cause for expulsion or for such other discipline as the council of the society may impose upon proper presentation of proof that such misstatement was either wilful or the result of such gross negligence as to be inexcusable.

3. No member or associate shall allow any person to practise in his name as a public accountant who is not a member or an associate of the society or in partnership with him or in his employ on a salary.

4. No member or associate shall directly or indirectly allow or agree to allow a commission, brokerage or other participation by the laity in the fees or profits of his professional work; nor shall he accept directly or indirectly from the laity any commission, brokerage or other participation for professional or commercial business turned over to others as an incident of his services to clients.

5. No member or associate shall engage in any business or occupation conjointly with that of a public accountant, which in the opinion of the executive committee or of the council is incompatible or inconsistent therewith.

6. No member or associate shall certify to any accounts, exhibits, statements, schedules or other forms of accountancy work which have not been verified entirely under the supervision of himself, a member of his firm, one of his staff, a member or an associate of this society or a member of a similar association or society of good standing in the United States or a foreign country.

7. No member or associate shall take part in any effort to secure the enactment or amendment of a state law or of any regulation of any state or civic body, affecting the practice of the profession, without giving immediate notice thereof to the secretary of the society, who in turn shall at once advise the council.

8. No member or associate shall directly or indirectly solicit the clients or encroach upon the business of another member or associate, but it is the right of any member or associate to give proper service and advice to those asking such service or advice.

9. No member or associate shall directly or indirectly offer employment to an employee of a member or associate without first informing said member or associate of his intent. This rule shall not be construed so as to inhibit negotiations with any one who of his own initiative or in response to public advertisement shall apply to a member or associate for employment.

10. No member or associate shall render or offer to render professional service, the fee for which shall be contingent upon his findings and the results thereof.

11. No member or associate of the society shall advertise his or her professional attainments or service through the mails, in the public prints, by circular letters or by any other written word except that a member or an associate may cause to be published in the public prints what is technically known as a card. A card is hereby defined as an advertisement of the name, title (member of the Texas Society of Certified Public Accountants, C. P. A.,

or other professional affiliation or designation), class of service and address of the advertiser, without any further qualifying words or letters or in the case of announcement of change of address or personnel of firm the plain statement of the fact for the publication of which the announcement purports to be made. Cards permitted by this rule when appearing in newspapers shall not exceed two columns in width and three inches in depth; when appearing in magazines, directories and similar publications cards shall not exceed one-quarter page in size. This rule shall not be construed to inhibit the proper and professional dissemination of impersonal information among a member's own clients or personal associates or the properly restricted circulation of firm bulletins containing staff personnel and professional information.

12. No member or associate of the society shall be an officer, a director, stockholder, representative, an agent, a teacher or lecturer, nor participate in any other way in the activities or profits of any university, college or school which conducts its operations, solicits prospective students or advertises its courses by methods which in the opinion of the committee on professional ethics are discreditable to the profession.

Dallas was selected as the next place of meeting.

### **Washington Society of Certified Public Accountants**

At a meeting of the Washington Society of Certified Public Accountants on October 7th the president was authorized to appoint a committee to consider a code of ethics for the society and report at a later meeting. A copy of a resolution, adopted at the same meeting, endorsing the Federal Reserve Board pamphlet, "Verification of financial statements," is published elsewhere in this *Bulletin*.

## **OBITUARY**

### **John G. McIntosh**

John G. McIntosh of Seattle, Washington, died of pneumonia in Belmont, California, on November 17th. He was a charter member of the American Institute of Accountants, a certified public accountant of Washington and a member of the firm of McIntosh, Cowan & Co. At the time of his death he was a member of the committee on state legislation of the American Institute of Accountants. Mr. McIntosh was a past

president of the Washington Society of Certified Public Accountants.

### **Albert L. Palmer**

Word has recently been received of the death of Albert L. Palmer, charter member of the American Institute of Accountants and a member of the American Association of Public Accountants, the Institute's predecessor. Mr. Palmer was a certified public accountant of Illinois. At the time of his death he was in the employ of the investment house of John Burnham & Co., Chicago.

## REVIEWS

### CHARLES B. COUCHMAN—"JUGGLING CORPORATE CAPITAL"

Article published in *Nation's Business*, November, 1929.

Laws permitting the issuance of capital stock of no par value, if they contain elastic provisions on what shall constitute surplus available for dividends, may dissolve the restrictions which were originally intended to safeguard corporate creditors, says Mr. Couchman. He outlines the development of the corporate form of business enterprise, the most attractive feature of which was at first the limited liability of shareholders, although the interests of creditors were presumably adequately protected by the requirement that stated capital be plainly indicated. The par value of shares of stock, says the writer, while they of course were far from a definite indication of the true value, did at least serve as a basis upon which the capital of a corporation could be distinguished from surplus available for distribution to stockholders. If capital stock were sold at a price less than its par value, the accounts reflected the transaction under some such caption as "Discount on capital stock." If shares were issued at a premium, the books showed the excess as "Paid-in surplus." However, the gullibility of the public permitted abuses such as watered stock, which unwary investors might purchase at par value, although huge blocks of it represented assets no more tangible than the services of the incorporators, options on land or equipment of doubtful earning power, etc.

No-par stock received statutory sanction partly in the hope of remedying such conditions, and it has been successful in so far as prospective investors have been forced to search further than the amount engraved on the face of the certificate to determine the actual value of shares, Mr. Couchman says. However, most no-par-stock statutes, by failing to specify what shall be recorded on the books as an indication of the amount of the corporate capital represented by the issued shares of no par value, have left open the door to far more dangerous abuses, such as distribution of capital as dividends.

### EDWARD C. ROMINE—"SALIENT POINTS IN HOTEL ACCOUNTING"

Address delivered at a meeting of the Georgia Hotel Association, Savannah, November 30, 1929.

In speaking of accounting control in hotels Mr. Romine emphasized the fact that an accounting system is not merely a set of forms, but intelligent coordination of effort for the achievement of certain results with the least possible labor and expense. The elaborateness of an accounting system, therefore, is no criterion of its merit, he said. It is necessary, for example, to arrange procedure so that the bookkeeper is not the person who handles cash. The accrual basis of accounting was strongly recommended by the speaker, who said that the popular belief that this method is too complicated for laymen is entirely unfounded.

Depreciation is a vital matter in hotel operation, and unless it is adequately recorded financial disaster may result, Mr. Romine continued. The useful life of a hotel, which may become obsolete long before its normal life is exhausted, may easily be overestimated by optimistic proprietors, and this may result in sale of rooms at a price below their true cost.

Improper financing may result in a shortage of funds, and consequently in long-term credits for current supplies, which will necessarily affect the prices of dealers as well as the quality of goods purchased. Neglect of repairs and undue limitation of expenditures for advertising and promotion are other dangers. Improperly financed hotels should undertake refinancing immediately, even if a loss must be suffered, rather than wait until all the damage is done, the speaker said.

American-plan hotels should properly divide the rate charged for room and board, applying a part of it to rooms and a part to restaurant sales. The speaker said that the prevalent custom of dividing the rate into four equal parts, one for the room and one for each of three meals, is wholly illogical.

Mr. Romine advocated keeping food inventories at a minimum, and recommended an intelligent programme of sales promotion.

## BUREAU FOR PLACEMENTS

The bureau for placements of the American Institute of Accountants has commenced its annual efforts to arouse the interest of promising seniors in American colleges in the possibilities of accountancy as a profession. Letters have been sent to members of faculties of colleges with which the bureau has dealt in the past, requesting their co-operation in referring to the Institute able men who wish to know more about the profession. During the year 1929, 220 applications have been received from college

graduates, 57 of whom have been placed with accounting firms. Many applications were rejected because the applicants did not meet the high standards required by the special committee for placements.

Firms which desire college men as junior staff assistants on the basis of a three-year engagement, at a beginning salary of \$125 a month, as arranged by the bureau, are requested to advise the bureau of their probable needs as far in advance of actual requirements as possible.

The following are summaries of the qualifications of several applicants who although accepted by the bureau happen to live in parts of the country where no openings are available. These men have expressed willingness to work in other places. They are all recent graduates and have had little or no practical experience. The bureau would be glad to furnish to members or associates of the Institute the names, addresses and applications of the men in question:

- No. 863—B. S. in business administration, University of Florida. Specialized in accounting. Italian parentage. Excellent scholastic record. Well recommended. Now in Gainesville. Will go anywhere, but prefers Florida.
- No. 871—B. S. in commerce, University of North

Dakota, German parentage. Better than average scholastic record. Specialized in accounting. Now in Ashley, North Dakota. Prefers Minneapolis or St. Paul.

No. 906—B. S. in business administration, University of Arizona. Specialized in accounting. Excellent scholastic record. American parentage. Now in Tucson. Will go anywhere, preferably Chicago or San Francisco.

No. 948—B. S. in business administration, University of Idaho. Specialized in accounting. Scholastic record better than average. Swedish parentage. Now in Spirit Lake, Idaho. Prefers Spokane or other western city.

No. 1001—B. A. in business administration, State University of Montana. Specialized in accounting, mathematics, economics. Scholastic record above average. American parentage. Now in Missoula, Montana. Prefers Minneapolis, but will go elsewhere.

## EMPLOYMENT EXCHANGE

Few well qualified staff accountants have registered with the employment exchange since publication of the November *Bulletin*, and some of those who have presented themselves have been placed almost immediately with firms which had sent the Institute notice of their needs. The time between issues of the *Bulletin* is so long, comparatively, that firms are urged not to wait for the appearance of items in this magazine describing qualifications of applicants, but to advise the Institute immediately when staff openings occur. Many applicants are registered, referred to firms and employed within a few days, without notice of their availability ever appearing in the *Bulletin*.

So many firms will find it necessary to increase their personnel in the coming weeks that members will be doing their fellow practitioners a service by referring to the employment exchange any promising applicants for positions whose assistance the members themselves may not need at the time.

It does not seem desirable to publish summaries of the records of the applicants now registered, inasmuch as most of these men are already in communication with firms which may offer them positions. It is possible, however, that some of them, or others, may be available by the time this *Bulletin* is published.

## HERE AND THERE

Harold B. Atkins announces the removal of his office to the Chanin building, 122 East 42nd street, New York.

Thomas L. Berry announces the opening of an office for the practice of public accounting at 2 East Lexington street, Baltimore, Maryland.

Blass, Wood & Co., Pittsburgh, announce the admission to partnership of Robert L. Faris.

Victor Edward Buron of Texarkana and J. L. Swofford & Co., Forth Smith, Texas, announce the consolidation of their practices under the firm name of Buron, Swofford & Co., with offices in Texarkana, Fort Smith and Little Rock.

Harry D. Duttine and A. Norman Young announce the formation of a partnership under the firm name of Duttine & Young, with offices at 7 South Dearborn street, Chicago.

*Bulletin of American Institute of Accountants*

Thomas W. Hinton announces the formation of a partnership with Bernard Posey under the firm name of Posey, Hinton & Co., with offices at 521 City National Bank building, Memphis, Tennessee, and with a branch office at Henderson, Kentucky.

The firm of Horton, Keach and Whittaker announces the consolidation of its practice with that of Castenholz, Nicholson & Rohrbach.

Samuel Kanarvogel, New York, announces the removal of his office to 133 Fifth avenue.

F. W. Lafrentz & Co. announce the removal of their Chicago office to suite 1960, 208 South LaSalle street.

McIntosh, Cowan & Co. announce that they will continue practice of the firm without any change in policy, name or location of offices, following the death of John G. McIntosh.

Announcement has been made of the consolidation of the practice of Maurice N. Newman with that of Nathaniel Shanks, under the firm name of Shanks, Newman & Co., with offices at 402 Union Bank building, Los Angeles, and 503 Hearst building, San Francisco.

Stanley W. Park and Leonard Park of S. W. Park & Co., have become associated with Peat, Marwick, Mitchell & Co., New York.

Raymond E. Rickbeil announces the removal of his office to suite 913, Ridgely-Farmers State Bank building, Springfield, Illinois.

Lawrence Scudder & Co. announce that L. T. Diebels, San Francisco; Peter Haugeard, San Francisco; F. M. Weaver, Kansas City, and C. H. Goodrich, Jacksonville, were admitted as resident partners of the firm in their respective territories on November 1, 1929.

Edward M. Stradley has announced the opening of an office at 521-22 Detroit Savings Bank building, Detroit.

Williams & Thomy announce the removal of their offices to 1416 Temple building, Rochester, New York.

Wooden & Benson, Baltimore, announce the opening of an office in Washington, D. C., at 923 Fifteenth street, N. W.

Thomas W. Byrnes delivered addresses entitled "New York stock-exchange practice" and "New York stock-exchange questionnaire" before the accounting seminar of Columbia University on October 29th and November 12th, respectively.

Charles B. Couchman spoke on the place of accounting in modern business before students at Goldey College, Wilmington, Delaware, October 18th, and he addressed the graduating class of Pace Institute, New York, November 20th, on "What price success."

J. P. Goddard, Salt Lake City, spoke at a meeting of an association of school-district clerks on "School-district accounting problems," October 10th.

Homer G. Graham spoke on the "Liability of transferees" at a meeting of the Miami chapter of the Florida Institute of Accountants on November 19th.

K. Werner Heye is a member of the committee on investors' protection of the chamber of commerce of Rochester, New York. He has also been elected treasurer of the Rochester Ad Club.

Henry Knust, Hartford, was in charge of the auditing division of the recent community-chest campaign in his city.

Louis D. Kork delivered an address before the Portland chapter of the National Conference of Bank Auditors on November 21st entitled "Classification and distribution of expenses for bank cost accounting purposes."